

PRINCIPLES OF ECONOMIC PLANNING



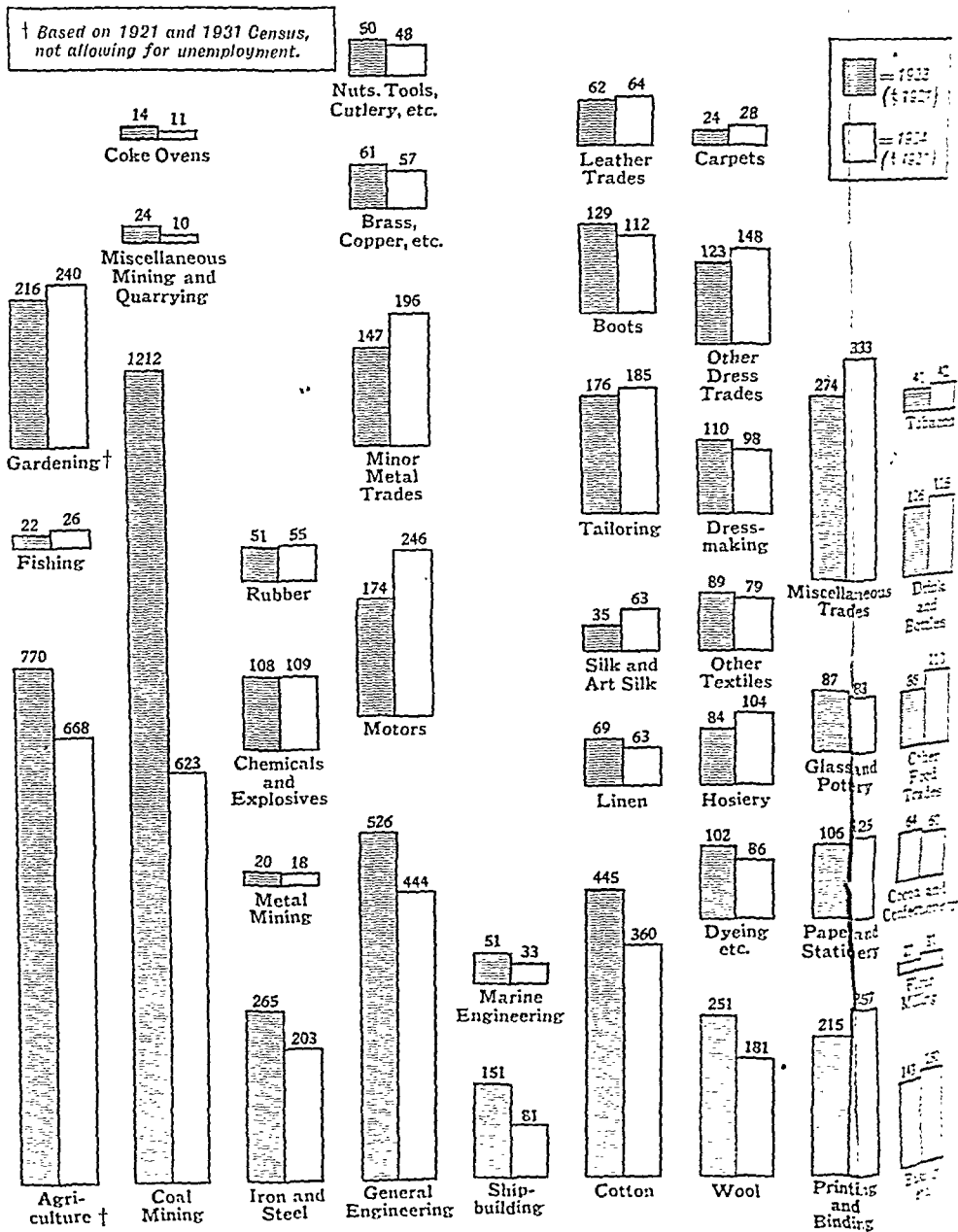
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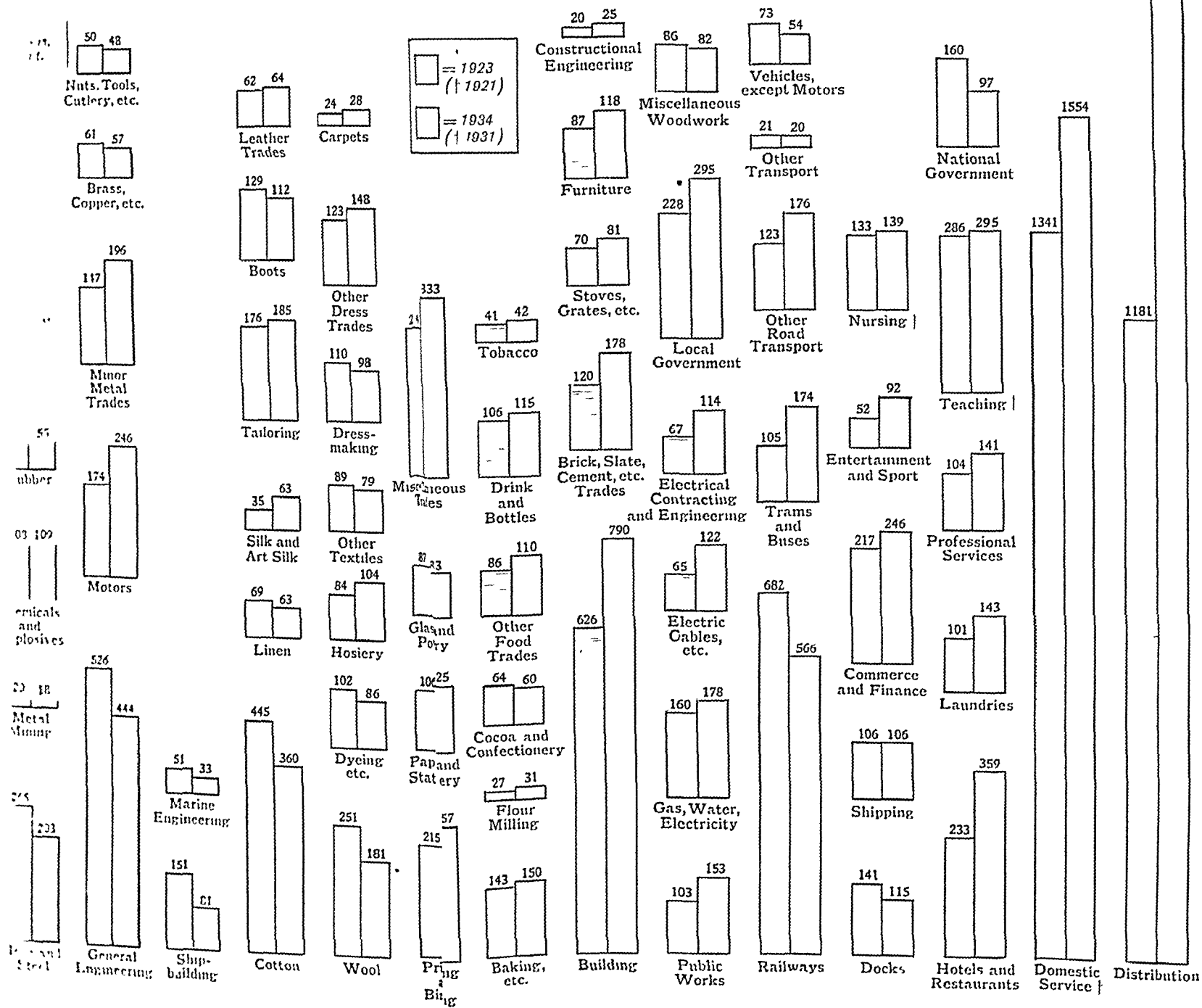
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PRINCIPLES
OF
ECONOMIC PLANNING

BY
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PREFACE

THE writing of this book has given me far more trouble than I bargained for when I began it. I had not got far with it before I began to see clearly enough where the main difficulties would arise. It would not be hard either to expose the shortcomings of a planless economy or to expound the underlying principles of economic planning in a purely theoretical way. But I doubted whether a purely theoretical exposition would afford much practical help to a world in distress; and in fact I ended by discarding altogether from the present volume those chapters in which I had endeavoured to work out some of the more intricate theoretical problems of a planned Socialist economy. I had prepared, for example, chapters dealing in some detail with the theoretical basis of pricing commodities under a planned system of production, with the structure of a Socialist Budget under a complete system of planning, and with the methods of financing intermediate transactions in an economy based on a planned distribution of incomes and a collective method of accumulating capital. But in the end I discarded all these, as matters likely at present to interest only a fraction of the readers to whom a book on economic planning in its broader aspects is likely to appeal. I did not want to be more technical than it was absolutely necessary to be; and I felt more hope of writing usefully about these issues if I could first get

certain of the more elementary principles of a planned economy plainly stated and understood.

I wanted, however, to deal not only with the principles of planning, but also with the methods of applying them and the machinery which a planned economy would have to create for the control of its affairs. Here a further difficulty at once confronted me. The economic machinery of any society is bound to bear a close relation to its political machinery, both national and local; and this applies most of all to a society which sets out to plan its economic life under a system of collective control. The economic structure of such a society must be closely co-ordinated with its political structure; for at a host of points these two are bound to touch and intersect. This being so, it is impossible to define the machinery of economic planning without making assumptions about the political structure to which it is to be related. For example, if the parliamentary system remains in being the economic machine must be so adjusted as to fit in with the conditions of final parliamentary control, and with a Cabinet system of government deriving its authority, at any rate in theory, from a sovereign Parliament. If, on the other hand, this assumption is not made, at once a host of different possibilities, from Sovietism and Syndicalism to Fascism and Syndicatism, is opened up. But to consider all these endless possibilities would involve writing a book, not about economic planning, but about the future of politics as well as industry; and such a book would either have to be several times as long as this one, or necessarily fail to come to grips with the problems of economic planning with which it was originally designed to deal. I cut the knot, and limited the size of my book, by assuming that

planning was to be introduced under a parliamentary system, modified in such a way as to make possible the handling of the greatly increased range of public activities which the institution of a planned economy would be bound to involve. Similarly, I assumed a local government structure of the same order as that which at present exists, though here again I had to admit considerable modifications arising out of the expanded scope of collective organisation and control.

These two assumptions in effect involved a third—the institution of a planned economy by means, not of a violent revolution carrying with it the complete overthrow of the established forms of political organisation, but of constitutional action through the use of these established forms of organisation in a new way, and for an essentially new purpose. This assumption, too, I had to leave undiscussed because I could not have considered its implications without writing yet another book. But I felt that I was justified in making the assumption because there is in fact no possible doubt that the great mass of those who desire to change the basis of the existing economic order in Great Britain hope to achieve this change by constitutional methods and not by revolution. Conceivably at some future time, as a result of events either in Great Britain or in the outside world, this attitude may change. But it undoubtedly exists to-day, and must be taken as a datum by anyone who is writing about economic policy with the existing situation in view. I do not think myself that it is likely to change speedily save as the result of the impact of forces from outside Great Britain. For although British Capitalism is in decay, it remains strong enough to carry on without

positive breakdown for a long time yet, unless there is a decisive worsening of world conditions.

In the past few years the British economic system has shown very clearly its strength in standing up to acute world depression and dislocation of the financial machine. We have been able to lose a substantial part of our foreign trade and of our receipts from overseas investments without any sharp fall in the standard of living, except for the unemployed section of the people; and already there has been at least some small recovery from the conditions of 1931. In these circumstances I see no reason to suppose that the British economic system is of its own momentum approaching a crisis likely to bring about a dramatic collapse. I do see reason to suppose that intensified conditions of international competition will make it progressively harder to raise the standard of living of the British workers, and may cause this standard to be positively depressed. I do see reason to suppose that the problem of unemployment will be found insoluble within the limitations of capitalist industry. But these forces, dangerous and powerful as they are, are not by themselves enough to bring about a positively revolutionary situation. If such a situation does arise, it is far more likely to come either through complete collapse elsewhere, carrying with it the destruction of British export trade on such a scale as to make impossible the purchase of the minimum of imports required for preserving the standard of living at a tolerable level, or, more probably, as a result of renewed world war.

But it is not very profitable to discuss, in the present state of mind of the British public, including the British Socialist public, what would happen if, from

either of these causes, a decisively revolutionary situation did emerge in this country. At any rate I have not regarded the discussion of these possibilities as falling within the scope of the present book, which I accordingly present to my readers, not as an account of how planning would have to be introduced into Great Britain or into any other country in face of a complete collapse of both the economic and the political institutions of Capitalism, but rather as an outline of the problem as it meets us here and now—compelled as we are under the existing conditions to make a choice between working for the revival of private enterprise on the old lines and attempting to substitute a different economic system designed to unloose the chained up forces of production and to give to the entire people a wider and more abundant life.

NOTE

The questions discussed in this book have been further developed in some of their aspects in certain of my other writings—notably (1) *Studies in World Economics* (1934), (2) *Economic Tracts for the Times* (1932), and (3) *The Next Ten Years in British Social and Economic Policy* (1929). Further aspects are dealt with in (4) *British Trade and Industry* (1932), (5) *The Intelligent Man's Guide through World Chaos* (1932), and (6) *What Everybody Wants to Know about Money* (1933). The principal related studies are listed below, the number following the title indicating in which of the above books the further treatment is to be found.

CHAPTERS

I and II . *Our Unused Wealth* (1), *The World Crisis* (5).

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- III and IV . *Economics in the Modern World* (1),
A Note on Laissez-faire (1), *Towards
a New Economic Theory* (2).
- V and VI . *The New Capitalism* (3), *Rationalisa-
tion* (3).
- VII and VIII *Public Opinion and Monetary Policy*
(2), *Why and How We must Socialise
the Banks* (2), *The Socialisation of
Banking* (6), *The Monetary Factor—
and the Other Factors* (6), *Banks and
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- IX . . . *The World Economic Outlook* (2), *The
Problem of Consumers' Credit* (1),
*Wages, Family Allowances and Popu-
lation* (3).
- X . . . *The Planning of International Trade* (1),
*Free Trade, Tariffs, and the Alterna-
tive* (2). See also *British Trade and
Industry* (4) passim.
- XI . . . *Socialisation* (1), *Socialisation* (3), *The
Essentials of Socialisation* (2), *Public
and Semi-public Concerns* (2).
- XII . . . *Workers' Control* (3). See also my *Self-
Government in Industry* (1917), *Guild
Socialism Re-stated* (1920) and the
pamphlet *Workers' Control and Self-
Government in Industry* (with W.
Mellor, New Fabian Research Bureau,
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- XIII and XIV *British Trade and Industry* (4) passim.

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CHAPTER I

WHY DO WE NEED A PLAN?

WHY do we need a plan? Because, as matters stand, our physical power to produce goods has outrun our ability to provide for their consumption, and the result is seen in widespread unemployment, suffering, and bodily and mental deterioration of our people. Because it is ludicrous that men should starve in the midst of potential, or even of actual abundance, or that, if they are not left actually to starve, we should prefer keeping them alive on doles to setting them to useful work. Because reliance on a system whose defenders pride themselves on doing without a plan has brought us into this impasse, and there is no sign that, by continuing to do without one, we shall be able to muddle through to prosperity.

Not that unemployment ought to be an evil thing. It is not thought evil when it goes by the name of leisure. The great increase of productive power which has accrued to us in recent years ought to enable us to make a happy choice between three alternatives—to become richer, while working no harder than before; to be as rich, while working less hard; and to be as rich, or richer, while making labour less irksome and for more men a positive source of pleasure.

But unemployment is not leisure, but an unmitigated curse, when it descends on men as we let it descend

—not as an increased ration of leisure for all, without loss of income, but as pitiable...destitution for some—destitution that denies them the chance of making fruitful use of their hours of idleness. For leisure costs money, and requires peace of mind. A man who is wondering whether anyone will ever have any use for him again, and concluding that probably no one ever will, who is wondering where his children's next meal is to come from, and whether "they" will cut down his dole next week, who cannot be seen abroad without shame because of his clothes, or look without shame at his own face in the mirror, or at the pinched and hopeless faces of his wife and children, who must tramp day after day around some god-forsaken industrial town or village that is as derelict as himself, seeing from one day's end to another nothing to uplift his spirit—only the flotsam and jetsam of a forlorn and bankrupt industrialism—such a man cannot enjoy leisure, or be expected to thank his stars for the wonder-workers who have made magical machines to lighten the labour of men. He is not a "gentleman of leisure" but an "out of work"; and the two are at opposite poles.

If a sign is needed of the folly of leaving things unplanned, in this age of mechanical marvels and incredible follies of mind, consider only this mess we have made of leisure. On the one hand, we have a relatively small band of happy technicians and inventors, revelling in the vast machines they have made and the still more marvellous "labour-saving" devices they hope to get perfect in a few years' time, and, under their rule, ant-colonies of industrious midgets working faster and faster as attendants upon these monsters, turning out an ever-growing

heap of mass-produced goods for every man-hour of human labour. Most of these midgets do not, like most of the technicians, enjoy their work. It is monotonous and yet intense: often it racks the nerves, even if it does not strain the muscles like the older forms of labour. There is a world of difference, in terms of happiness, between the high-priests and the slaves in the temple of industry.

On the other hand, we have a host—a growing host—of men and women whom no one thinks it worth while to employ. Among them are a high proportion of the most skilled and dependable craftsmen. Either the machine has taken away their work, or the demand has shrunk or changed, leaving their skill redundant and useless. Side by side with them are a mob of young people who have grown up to manhood since the troubles began. They have never been trained to any regular work, skilled or unskilled. To many of them it seems the most natural thing in the world to be hanging around with nothing whatever to do, scrounging—for it comes to that. To call their idleness leisure is a mockery: to expect most of them to make use of it to improve their minds is idiocy: to think that they can be happy on the dole is to show crass ignorance of what makes men happy. They could not be happy, even if the dole were far more than the pittance it is; for a man's life, to be happy, must at least seem to have some meaning and some value. What value has theirs? How many people would say anything except "Good riddance!" if the earth were to open and swallow them up?

Yet they are less unhappy than those older men—skilled craftsmen and once self-respecting citizens—

for whose labour the world seems to have no further use. The younger unemployed have grown up amid this carnage: the older have something to contrast it with. Once they were valued servants, and, even if they got more kicks than halfpence for their service, they could occasionally afford the luxury of kicking back. Now, they are on the scrap-heap, differing from old iron only in that they are more of a nuisance, because someone has still to pay, grudgingly, for keeping their useless bodies alive.

Surely there is something sheerly insane about a system which, if it has less work to do, works Bill harder than ever, and denies Tom any employment at all? Less work would not be a curse, but a blessing, if what remained were shared out among us in reasonable proportions. That would mean more leisure, and not unemployment. But that is not the whole story, or even the major part. Tom is not unemployed because everyone has so many things that it is not worth while to work at making more. Far from it. We are producing less things than we were a few years ago, despite the huge increase in our productive power. We keep telling Tom we cannot afford to pay him more than a pittance for doing nothing, and that it is very kind of us to pay him anything at all. When Tom answers that he will gladly work to produce more goods, so that he can have a larger income, we tell him to leave Economics to his betters, or, if he won't do that, to listen attentively to what the nice, clever bankers and professors have to say. They must know what is right: they are paid to know. And the fact that they are not unemployed, while Tom is, shows that they are worth their keep, and Tom is not.

It is hard to write coolly and dispassionately about Tom's fate. You cannot do it, if you once get to thinking about Tom as Tom and not as a mere unit in an arithmetical total of unemployed. A cipher cannot feel cold or hunger, it cannot be happy or miserable, a decent human being or a shivering wreck. If you are able to think about the unemployed simply as units in a total, perhaps you will never see why this country has to have a plan. If men didn't matter, it would not matter whether we had a plan or not. But men do matter—all men, and not only the men you or I happen to know and meet.

Someone has said that if Jarrow and Ebbw Vale were just round the corner from Mayfair and Lombard Street, we should have found a cure for unemployment long ago. I doubt it. Many of the worst slums in England are just round the corner from the most comfortable residential or the most prosperous business areas: yet we have not abolished the slums, nor are we doing away with them even now nearly as fast as we pretend. For every slum we clear, unemployment will speedily make a new one, if we allow it to go on. You cannot abolish slums except by abolishing poverty and the hopeless misery of the unwanted.

But we have not completed our picture. We have sketched on the one side the employed—the high-priests and slaves of the machine—and on the other the unemployed—the sacrificial victims of the god. But there are higher priests than the technicians who get so much happiness out of making these relentless gods—priests so high that they never soil their hands with menial attendance upon the god, but only sit on their dark and secret thrones and prophesy. They

are called "The City", because the making of cities is the highest achievement of human civilisation. It is their function to tell us that we must not displease the god by availing ourselves of the plenty that he seems to offer us. Only by their leave may the priests set the slaves to work miracles with the aid of the machine; and no such leave is given until the high-priests have seen favourable omens in their mirrors of burnished gold. As they inhabit dark vaults, upon which the sun is seldom allowed to shine, the omens are not often favourable. The high-priests worship scarcity; and by their will and hypnotic power scarcity is the law.

There is also a tribe of lesser priests, called economists, whom the high-priests have sometimes called upon to interpret the law to the people. The principal function of these lesser priests is to explain to the people how things work, and often they fall so much in love with the intricate workings of the system which they are called upon to describe that they spend their whole lives devising imaginary intricacies of a still more intriguing kind, and racking their brains to find answers to their own fictitious puzzles. This destroys their value as interpreters of the law; for it makes their writings unintelligible except among themselves, and also detaches them from the observation of real events. But there are other economists, blunter-minded, who do try to explain the system in plain language; and the crasser doctrines of these economists—of whom I am one—reach the vulgar. Many of them, however, fall no less in love with the work of discerning laws amid what seems at first sight so formless and chaotic; and they, too, become confused in their minds between what is and what

must be, or even what is and what ought to be. Some of them, indeed, deny that there are any "oughts" in Economics, which they seek to represent as a science proclaiming unalterable laws which men must obey. Others let "ought" intrude, and explain that each factor of production gets just the reward it ought to get, because each is rewarded according to its "productivity"—which in turn is measured by what it gets. In whatever way, most of them until quite recently left their readers with the impression that all was almost, if not quite, for the best in this best of economic worlds, and that mere man would be most unwise to lay sacrilegious hands on the delicately-poised mechanism of the economic system.

Latterly, indeed, more of these lesser priests have been growing restive. It has become obvious that, if all is for the best, the best cannot be very good; and the high-priests in the temple have begun to scold some of the economists as unfaithful servants. Seeing things so badly amiss, a number of economists have begun to suggest that we might better them by some "management" here or there, with the object of "ironing out the trade cycle" or preventing wealth going down the drain because men persist in "saving" more than they are prepared to "invest". There is even a tendency to fasten on the supreme mystery of money as that part of the economic system which stands most in need of conscious "management".

Of course, the high-priests have been managing money in their own way all the time; for what magic ritual ever went off without a little management behind the scenes? But there is a difference.

The high-priests manage money in order to make the world safe for money; but the "managing" economists are apt to hold that money's function is to serve and not to rule—to oil the wheels of exchange, and not merely to anoint the bodies of the high-priests.

It is true that, when these economic blasphemies are heard, another faction of economists sets up a loud cry of outraged anguish. According to these, all our troubles are due not to our failure to manage things, but to our blasphemous attempts to interfere with the "natural" working of economic forces. If men would but let things alone as they used to do, the world would soon come to rights of its own accord. No one would be able to exact for his service to production more than his service was worth, or to hold up prices or create artificial scarcities. No bank would be able to pour out artificial money, to create an artificial boom, bound to be followed by an equivalent collapse. No country would raise trade barriers against another, no State legislate to make twice two equal either more or less than four. It is true that the process of returning to this Utopia might be somewhat painful. There might have to be yet more unemployment for a time. We might have to abandon most of the social services that have been built up on a basis of "excessive" taxation. Most business men might have to go bankrupt in order that their successors might become really prosperous; and wages might have to be permanently reduced despite the increase in productive power—for is not mechanisation steadily lowering the real economic value of human labour? But, say these economists, in the end we should have everyone at

work again; for unemployment is clearly a sign that wages are too high.

These cheerful protagonists of the old version of the "dismal science"—for they are often quite hilarious about it—find far more favour with the high-priests than the heretical advocates of "management" and "planning". But the secondary priests who actually control the machines are less and less of the same mind. For their whole business is to manage things; and they are under no illusion that the economic machine works automatically if it is left alone. It does not work automatically: unless they make it move, it comes speedily to a stand. But they like making it move; and too often they find their right to move it denied by the high-priests. Having made a monster capable of pouring out wealth in ever-increasing abundance, they want it to pour out wealth. They hate, even when their own livelihoods are not threatened, to see the machine rusting away, thwarted in the exercise of its prodigious power. They may be callous enough about throwing men out of work; for what else are machines for, in a sense? But when it comes to throwing the machines themselves out of work, they begin to see red.

Thus there arises a conflict between the money-man, who thinks in terms of the money-return upon a money-investment, with goods and services, as Marx long ago pointed out, as mere intermediaries between money and more money, and the machine-man, who wants to put his exquisite machines through their paces, and to demonstrate his success in making the curse of Adam a thing of the past. The money-man does not, indeed, always worship scarcity: that

all depends. He is quite prepared to worship plenty, if he can see that plenty will pay him best. Give him a chance to tap an expanding market by reducing prices, and he will do it readily enough if his aggregate profits, in relation to the size of his investment, are likely to be increased. A money-man who controls the making of motor-cars or wireless apparatus may be all for plenty; but one who mills flour is likely to prefer scarcity. For the demand for some things is highly elastic, and for others not.

But even the money-man who is disposed to favour plenty is apt to change his tune if he finds himself in a highly competitive market. For when demand is elastic and costs can be greatly reduced by producing on a grander scale, money-men are apt to rush in, each eager to make as large a part as possible of the market his own. Hoped-for profits vanish in the scramble to sell; and even the votaries of plenty are apt to turn to worshipping scarcity instead. They make a ring, or a "gentleman's agreement", to limit "~~unfair~~" competition; and the machine-man, who had just thought of a lovely new way of doubling output, is left to twiddle his thumbs.

Meanwhile, behind the lesser money-men, or employers, and the machine-men, or technicians and works managers, sit the high-priests, the money-spinners. It is the dream of these great ones to make money dear—which ought, one would suppose, to mean making commodities cheap in terms of money. But the matter is by no means so simple as that; for the money they want to make dear is not the money that buys commodities, but the money that breeds money. In other words, they want the rate of interest to be high, in order that money may

breed more money. Usually this end can be achieved only by making money scarce, in relation to the demand for it, or so at any rate the high-priests suppose. But this does not at all mean that the less money there is, the "scarcer" and dearer it will be. Such a view is contrary to all the observed facts. Money must be "scarce", not absolutely, but in relation to the demand. As long as it is "scarce" in this sense, the more there can be of it the better; for the rate of interest will be kept up, and yet there will be all the more money to breed money.

The high-priests therefore spend their lives in a search after this relative "scarcity". As long as they can go on lending more money at rising interest rates, they are ready enough to expand the supply of money. The only limit is that it must not be so expanded as to cause the rate of interest to threaten to fall. That is how booms are made—by bankers making more and more money for hopeful borrowers who are prepared to pay for it at rising rates. The borrowers are hopeful because, as long as more money is being made, they will be able to collect more in payment for their goods. The high-priests and the lesser money-men are both happy; and the machine-men are happy too, for they are free to let the wheels revolve as fast as they like.

Yet this happiness does not endure. There comes a point at which the high-priests become uneasy about the lesser money-men's ability to redeem their monetary promises to pay. There comes a point at which the lesser money-men find it harder and harder to get rid of the mountains of goods which they are ready to produce. There comes a point at which the buyers of things begin to wonder how long the rising prices

are going to last, and to think about deferring some of their purchases in view of a possible fall. There comes a point at which the money-men who have been buying securities like mad at higher and higher prices in the stock markets begin to get qualms; for they can buy only at prices which assume that high profits are destined to continue to eternity. The whole surface of the business sea begins to heave uneasily, ominous of the coming storm. Where the storm actually breaks is of secondary importance for our present purpose. The point is that it does break. Stock operators begin frantically selling, bankers frantically calling in loans, traders frantically curtailing and reducing orders, manufacturers frantically cutting down production and turning away hands. Whoever begins, the rest must follow; and historically it seems as if the crisis begins sometimes in one part of the business world and sometimes in another. They are all in the same bed: when any one of them says "Turn", they all turn.

When this happens, the high-priests wring their hands like everyone else. They are no more responsible than the rest for the calamity, they hasten to explain. It is due to over-production, over-confidence, over-speculation, over-whatever you like, except over-issue of money. They make speed, however, to re-establish their own security. While the boom lasted, "scarcity" was compatible with a large monetary supply; for if the supply of money grew, the willingness to borrow it grew even faster. But now money can be scarce only if there is very little of it about, and that little hard to come by. Bankers call in as many advances as they dare, register debentures or prior liens on the property of debtors who cannot repay, and look down

their noses at potential borrowers whose solvency they mistrust amid the general insecurity. Of course, when this happens bankers themselves lose money, and occasionally, as in the United States in 1933, banks crash right and left. It is not pleasant for the high-priests to say good-bye to the easy profits of the boom years. But the great thing is to re-establish the power of the money-god; and this must be done by restoring "liquidity" and "scarcity", whatever else goes by the board.

It is therefore just to describe the banker-priests as votaries of scarcity, even if they make their biggest profits when they are lending too much. For always their object is to keep money scarce in relation to the demand for it, without regard to the effect of their policy on the value of money in terms of goods. They force up prices in a boom, and force them down in a slump, thus exaggerating price-fluctuations. But their object is not to make prices high or low, but to make money breed as much additional money as possible.

The machine-men have usually no fault to find with the bankers while a boom is in progress. But when a slump comes, and the machines are laid idle, it is natural for the machine-men to blame the money-power. It is far less easy for them to see what can be done to make it alter its ways. For the ruling money-men *are* the high-priests of a religion which most of the machine-men also profess. That is the religion of Capitalism—the religion of economic inequality. The system is not their system: they are its servants and not its masters. But it does use most of them relatively well, giving them both jobs in which they can find at least a good deal of interest and enjoyment, and a social and economic status a long way above

that of the great majority of their fellow-men. Some of them have investments as well as salaries, or are accorded a share in the profits of the business they help to control. They are thus, in some degree, money-men as well as machine-men. Many more mix socially and intermarry with the money class, and value their incomes for reasons of snobbery as well as of superior comfort and security. They may on occasion revile the high-priests, as men have been known to revile their tribal gods. But they cannot escape a feeling that as beneficiaries of the money-spinning system they have all something in common, in contrast to the mass below.

Of course, this sense of the solidarity of all property-owners and economically superior persons exists in very different degrees of strength among different sections of the machine-men. It is not nearly so strong among them as a class as it is among small property-owners, small employers, small tradesmen and others who derive their small superior incomes from forms of enterprise which the mass, as far as it is affected by Socialist ideas, is threatening to supersede. For no one is threatening to supersede the machine-men. If the world went Socialist, it would need the machine-men even more than they are needed to-day, and probably accord them a good deal more power. It is not the loss of his job that the machine-man needs to fear, but the loss of his social superiority and perhaps of a part of his income. For if the high oaks are felled, will not men soon begin to lop off even the lesser trees? Moreover, most of the machine-men have relatives and friends who are property-owners; and class solidarity is very strong in an old and settled society such as ours.

Nevertheless, the machine-men are not content. It is infuriating to have your work spoilt because society is so badly organised that no means can be found of distributing the goods you are able to make. It is maddening to have your inventions quietly smothered—as many inventions are—lest they should create plenty, and so glut the market. It is senseless beyond measure that the amount of goods you are allowed to produce should depend, not on what is needed, but on some mysterious oscillation of the money-making apparatus, which seems to get far worse and oftener out of gear than any machine that has not been scrapped long ago.

Besides, the machine-makers are men, and have decent human feelings. They are often ruthless about the displacement of workers which some machine they are introducing entails; but that is because it is their job to devise machines, and it seems silly to them—as indeed it is—that a machine which saves labour should act as a curse instead of a blessing. To re-employ displaced workers, or to spread the work so as to give more leisure all round, has seemed to them to be other people's affair rather than theirs. Their job is to raise the efficiency of production to the highest point: the care of distribution is for others.

The work of the machine-man, however, brings him much closer to the mass of the people than the work of the money-spinner. He lives near the factory and knows the factory town: he sees at first-hand what unemployment means in terms of human suffering and human decay. Especially in these last few years of muddle and distress, he has grown far less ready to stick to his own job and take the rest of the system for granted. He is beginning to cry out, not yet for

Socialism—for there snobbery and fear of the loss of social and economic superiority stand in the way—but at least for “Planning”, for a planned economic and financial system that will give him the chance of getting on with his job. He is readiest to demand “planned” finance; for it looks as if that could be done with least disturbance to his own position and that of his friends. But he is usually in favour of “planning”, even if it be of a somewhat dubious sort, for his own industry, if not for industry as a whole.

At the same time, the machine-man is suspicious of the politicians and of bureaucracy. He has no love, and not much respect, either for Westminster or for Whitehall. He is apt to dream of “Technocracy”—of a world run by technicians, in which nothing will ever be able to stop the wheels whirring, and men will grow richer and richer ever after, as the wheels turn more and more.

But Technocracy is a dream. The machine-men cannot rule the world alone, but only be the executants either of the money-power or of the whole people. If they are to be the latter, they must find allies; and there is no ally to be found save the great body of consumers for whose benefit alone the wheels can reasonably turn. The machine-man must choose between the uneasy and growingly precarious privilege which he gets as the servant of the money-power, and the risks that the gain of fellowship and power may not be worth the loss of social superiority if he chooses the side of the people.

At present, the machine-man’s instinct is to hedge by demanding “Planning”, but not Socialism. But what does “Planning” involve; and how far is it really possible without a good deal of Socialism?

CHAPTER II

THE RESOURCES OF PRODUCTION

THERE are in any community at any time a certain quantity of productive resources available for use. Out of the goods and services which these resources can provide, either directly or by way of exchange for foreign products, the community has to live and also to make such provision as it thinks necessary for the future. The only exceptions to this rule are, first, that a community can subsist in part for a time by using up stocks of goods that remain over from earlier periods of production; secondly, that it may be able to supplement its resources by tribute or the return on past investments of capital abroad; and thirdly, that it may for a time be able to live beyond its resources by borrowing from abroad goods and services for which it promises to pay at a later period.

Let us, for the moment only, ignore all these exceptions, and assume that the community is neither receiving tribute nor borrowing from abroad, and that it is not depleting its stocks of commodities. On this assumption, it is true that the community has to live and to provide for the future out of its current output of goods and services, either directly or by exchanging them for foreign products.

That seems a simple enough truism; but how speedily it begins to dissolve under analysis. For of what does this available supply of productive resources

consist? First, of human beings, possessing certain physical qualities of strength, endurance and preparedness to labour, and also certain degrees and forms of knowledge and skill that are useful for producing things. This formula is wide enough to include the entire social heritage of human knowledge as applied to the arts of production; for a thing is not known unless somebody knows it, and knowledge is productive power only to the extent to which it is embodied in human beings who are available to apply it.

Secondly, the supply of productive resources consists of certain physical resources provided by nature and made available as agents of production by men's knowledge of their use. These resources include the land, with its varying degrees and forms of fertility due to chemical composition, water supply, climatic conditions, and natural accessibility. They include the minerals under the land, as far as men know their uses and the means of extracting them. They include seas and rivers and lakes, both for the natural products which they yield and as ways of communication as far as men have skill to navigate them, and also as sources of power. They include the air and the rain—in short, anything given to men by nature, as far as they have skill to use it.

Thirdly, and in greater measure as communities advance in the arts of production, the available productive resources include things made by men with the object of lightening labour or increasing the range and quantity of their output. Among these are, pre-eminently, factories and workshops of every sort and kind, with the often intricate machinery which they contain, power-plant of every sort and kind, ships, railway lines, rolling-stock, and other equipment,

made roads and road vehicles, aeroplanes, houses and buildings of every sort, tools and appliances, working capital embodied in stocks of semi-finished materials, and a host of other things which economists habitually group together under the designation of capital goods.

It is not possible in practice to draw any sharp distinction between the second and the third of these groups. Every man-made product incorporates in itself some part of the gifts of nature; and every patch of land that has been touched by the hands of men becomes in some degree an artificial product. Even the sea is not as nature made it, especially now that oil-driven vessels play over its surface, killing fish by millions. But for our purpose it is not important to distinguish between the sheer gifts of nature and what men have made of them by adapting them to men's use. Moreover, as we have seen, the gifts of nature are only productive resources if men know how to use them; and to know the use of a thing is to alter it as much as it is altered by changing its physical form. Coal as a lump of rock and coal as something that can be burnt to yield heat are as vitally different as a lump of coal and the electricity that can be generated from it.

The resources of production are then, broadly, men using things. But both the men and the things may be more or may be less specialised to yield certain particular goods. Land can be used to grow a wide variety of crops, from wheat to trees, or as pasture, or to erect buildings or roads on, or for playing fields or parks, or for any of a hundred other purposes. But not all land is equally suitable for these different uses. Some can be applied to any of a number of purposes; some is applicable to one alone. Some land can hardly be said to be capable of being used

at all, either to produce things or to yield up a direct return in human satisfaction. How much land is usable, and how usable it is, depends on human knowledge in relation to human needs. If the world's population were doubled, much land would be found to be usable that is not usable to-day. Increase human knowledge, and the range of possible uses for much land will be greatly increased.

The produce which men derive from the land, or the minerals which they extract from it, are also capable of many alternative uses. Timber, iron and other metals, and coal all enter into a host of further products. So do rubber, wool, hides and skins, vegetable oils and fats, even the leading cereals, or cotton or silk. But clearly some of these products are far more specialised than others in their possible uses: so that already, in producing one of them in preference to something else, a certain amount of the available supply of productive power has been directed to a fairly limited range of use.

As products advance through the various stages of manufacture from the raw towards a finished state they become as a rule progressively more specialised. A ton of coal has a wider range of possible uses than the coke, tar and other by-products into which it can, but need not, be converted in order to serve men's ends. Some finished products do indeed retain a fairly wide adaptability; but most goods, when they are finished, are specialised to a single purpose. A coat is meant to be worn, a cigarette to be smoked, a bicycle to be ridden: they are not much use, if any, for anything else.

The instruments of production show similar varieties in their degree of specialisation. In general, the simpler tools are less specialised than the simpler

machines, whereas the most advanced instruments, tools and machines alike, tend to be more and more narrowly specialised to a single use. One of the economies of mass-production is that it enables very highly specialised tools and machines to be used, by spreading the cost of making them over a very large number of identical things that can be made with their help. But this way of cheapening production carries with it the penalty (how serious this is we must consider later) of making the structure of production to some extent less adaptable to changing needs.

The human agents of production are also specialised in varying degrees. For a worker, by hand or brain, to acquire skill at doing some particular intricate job commonly makes him worse at doing a quite unskilled job than if he had no particular skill at all—quite apart from the fact that to use a skilled worker on an unskilled job may destroy his “touch”, and make him worse at his skilled job when and if he is needed at it again. But the range of diverse jobs for which a particular sort of skill will serve varies very widely from case to case. Some skilled workers are practically single-purpose instruments: others can carry their skill with them into a wide variety of activities and occupations. Often, a part of a man’s skill can be carried from one job to another, while another part must be acquired separately for each type of work. Remove a skilled maker of textile machinery into a small arms factory: some of his skill will serve, but he will have much to learn. How readily he will learn it will depend in part on the skill and patience with which he is taught, but still more on his own adaptability, which is largely but by no means altogether a matter of age.

The characteristic development of the methods of production in recent decades has been the extended use of the one-purpose machine, requiring from its attendant a considerable machine-dexterity, but no wide range of skill. This dexterity, for those who are capable of acquiring it, as most men and women are, needs a far shorter period of training than the more diversified skill of the craftsman; and it is also relatively easy for the machine-worker who has learnt the trick of one sort of machine to pick up that of handling another. This tends to make dexterous machine-labour more easily transferable from job to job than highly skilled craft labour. Consequently, with the advance of mass-production, machines in general tend to become less adaptable, but labour more so. The most untransferable workers are found mainly in the older occupations, which demand a high degree of skill.

But the growth of mass-production does not remove the need for highly skilled craftsmen, though it restricts their numbers and reduces them to a far smaller proportion of the total number of workers employed. A danger is that, under the new conditions, the opportunities for highly skilled craftsmen to get trained will fall off so much as to cause a deficiency in the supply, as the older men trained under the earlier conditions pass out of industry. If this happens, special measures for craft training will have to be introduced. But the decline in the number of skilled craft workers is not an unmixed evil, in that it tends on the whole to add to the adaptability of labour. It is, however, a serious evil, both because the skilled worker stands the best chance of finding pleasure in his job, and because the skilled workers have always formed the backbone of Trade Unionism, so that

working-class bargaining power is badly affected by their decline.

The purpose of this discussion has been to show that the "available supply of productive power in the community" is not an undifferentiated quantity, that can be simply added up, but consists of more or less specialised elements, some capable of a wide variety of alternative uses, some of a narrower variety, and some usable only for a single purpose. The community's power to produce is not a power to generate a certain arithmetical sum of wealth, but a differentiated and largely specialised power to produce particular things.

There is, however, a sufficient degree of adaptability to make this productive power flexible within fairly wide limits. It would not be possible to divert all coal miners to producing quite different things without heavy loss of wealth; but it is possible, within limits, to vary the number of coal miners from year to year without much, or even perhaps without any, loss, if the appropriate measures are taken. Moreover, coal-mining is one of the most difficult cases in this respect. As between most industries, variations in relative output can be accomplished with much less friction.

Adaptability, of course, depends not only on the transferability of workers, but also on the adaptability of the capital structure. In general, instruments of production are much less adaptable than human beings. A coal miner may be convertible into a fruit-canner; but assuredly a coal-mine cannot be turned into a cannery. Factory buildings can fairly often be converted to new uses: the other day I saw an old brewery which is now used for making tennis-racquets. But usually, and above all in works where

any form of mass-production has been in use, the machinery cannot be adapted to any other purpose than that for which it was originally designed. You cannot weave woollen cloth on a loom designed for weaving cotton, or even, without much difficulty, one sort of cotton on a loom designed for weaving another. A great deal of our modern plant is simply useless unless it can be used for making the exact speciality it was designed to make.

How much this matters depends to a great extent on the length of time for which modern industrial plant is designed to last. Every properly run factory charges up in normal times against the cost of production a depreciation allowance meant to provide for the replacement of its plant over the period which it will take for that plant to be worn out. More and more, allowance is coming to be made also for obsolescence—that is, for the prospect that an instrument of production will be superseded by a more efficient instrument before it is physically worn out. The longer the estimated life of a plant is, the more serious is the loss involved in scrapping it—provided of course the estimate has been reasonably made. But together with the tendency to make more highly specialised machines and to speed up the pace of technical change in the methods of production there goes a parallel tendency to make the machines lighter and less durable: so that the scrapping of machinery required by a change in the relative scale of production in different industries does not involve so much loss as the high degree of mechanisation characteristic of modern industrialism would seem to imply. In other words, the rigidity of industrial structure which would seem to be the necessary consequence of mass-

production methods is modified, though not removed, by the decreasing cost and durability of the machines. To a considerable extent, the same is true of factory buildings. The modern factory is less heavily built, and more readily scrapped or adapted, than the older all-brick or stone structures that still disfigure our older industrial areas.

There are indeed some industries which are far less adaptable than others. The plant in cotton mills is still for the most part very durable; and in this industry the labour is also very highly specialised and difficult to transfer elsewhere. In coal mines, the sinking of shafts is an expensive business, and the abandonment of a mine before it is near exhaustion involves serious loss; and here again coal miners are very specialised workers who are difficult to transfer, especially as there is often no other industry carried on in the mining districts. But despite these and other very intractable instances, it seems probable that on balance industry, taking capital and labour together, is tending to become more adaptable rather than less.

The least adaptable part of the economic structure has hitherto been agriculture. This has been due to a variety of reasons—the exclusive suitability of certain soils and climates to particular crops, the absence of facilities for marketing alternative products, the farmer's necessity of planning his production well ahead and of following certain fixed rotations if he is not to exhaust the soil, and, last but not least, the limitations of the cultivator's knowledge and adaptability. Moreover, the agriculturist is far less able than other producers to foreknow how much produce a given amount of effort will yield. The bounty or niggardliness of nature is not yet predictable; but the cultivator is

not usually in a position easily to offset nature's yield by adapting rapidly the direction of his efforts.

From all this it follows that the available quantity of productive resources in the community is by no means so simple a notion as it seems at first. Productive power is useless unless it can be applied to produce things that are wanted. But what is wanted is not as large as possible a total quantity of goods and services, irrespective of what they are, but a properly balanced output, corresponding to men's needs and desires. There is not, indeed, a fixed relation between the quantities of different goods and services that people want; for the distribution of demand depends largely on the prices charged for the various things. But wealth is little, if at all, increased by producing more of a thing of which everybody already has as much as he wants, save in the very mildest degree, at any rate unless the supply of things of which people are much more eager to get more can also be increased. Even if wheat can be grown in a particular area much more easily than barley, it will be best to grow more barley if the desire for more barley is much keener than the desire for more wheat. That is, of course, unless the additional wheat can be exchanged for foreign barley on sufficiently advantageous terms.

We cannot, therefore, in estimating our productive power, simply add up all the available labour, land and natural resources, and other instruments of production, and so arrive at a sum-total of productive power. We could not do this, even if it were possible—as it is not—to express all these qualitatively different things in terms of a common quantitative unit. For the mere existence of a productive resource capable of being used to make *something* is not sufficient

evidence that it is, or could ever be, worth while to make use of that resource.

Thus, everyone will agree that it would not be desirable to cultivate every scrap of land on which any produce at all could be grown, or even to put all land to any sort of productive use. But many people do not find it so easy to realise that a mine or factory capable of producing goods may exist, and yet be quite unusable to advantage under any circumstances probable enough to be considered. A pit may have coal in it; but if it would cost more effort per ton to extract that coal than to sink a new shaft and get an equivalent supply of coal in that way, it cannot be desirable to use the existing pit. There is indeed a possible exception to this rule, in case of a temporary scarcity of labour; for though the total expenditure of effort might be less if a new shaft were sunk the immediate expenditure might be larger, and it might therefore be worth while to go on using the old pit till labour to sink the new one could be spared. Or again, if the new and the old pit were in different districts, so that it would be necessary not only to sink a new shaft, but also to build new houses and perhaps a whole new centre of population, with all the requisite services, in order to get the new pit to work, it might pay to go on using the old one in order to avoid these additional expenses. But this would really mean that when all the necessary efforts had been taken into account, the cost in effort of getting coal at the old pit was actually the less.

What applies to a pit applies also to a factory. A derelict factory is not a sign that productive resources are lying unused unless it would be desirable to re-open that factory if more of the goods it was equipped

to produce were to be made. If it would cost less effort to build a new factory and produce the additional goods there than to use the existing factory, that would mean that the latter had ceased to be a real productive resource—unless indeed the building could be turned with sufficient advantage to some other use.

All this is, of course, no more than to say that things do not disappear off the face of the earth merely because they are worn out. We are well aware of this in the case of old tin cans, old motor-cars, and many other sorts of worn-out junk; and much ingenuity has been spent on devising ways of recovering from "refuse" what is usable over again. But it is not quite so easy to realise that a factory which appears to be in perfectly good running order may be, from the economic standpoint, no better than refuse if the expenditure of human effort involved in using it is, subject to the qualifications mentioned above, greater than that involved in building a new factory and there producing equivalent goods.

This truth is implied in the whole idea of "obsolescence", which implies that a productive instrument can become refuse before it is physically worn out. The more rapid technical progress is in a community, the more of a problem obsolescence becomes, and the more important it is not to create unnecessarily durable instruments of production.

But, if instruments of production can exist in good running order which it can never be desirable to use again, may not the same be true of human labour? It seems obvious, on the face of the matter, that the existence of able-bodied persons who can find no work to do is a sign of productive resources going unused. But is this necessarily the case? Our present

economic system clearly rests on the assumption that it is not; for it is broadly true that, under it, workers are not employed unless the net money value of their product exceeds the money costs of employing them. That is to say, in order to get employment, they must be able to reproduce the cost of their keep. If the value of their product, though positive, is less than this, they remain out of work. This is of course an artificially simplified statement of the position; but it is enough to illustrate my point.

A disused factory and a disused worker are, however, by no means in the same position. If the factory is regarded as temporarily disused, and is to be kept in good running order, there will indeed be certain costs of maintenance to be met, though these will be as a rule only a small fraction of the running costs of the factory at work. But when a factory is closed down for good and all, it can be simply scrapped; and its scrap price is likely to be, at any rate, more than zero. A disused worker, on the other hand, cannot be simply scrapped, even if his disuse is regarded as permanent. His late employer cannot poleaxe him and sell his carcase for the valuable ingredients which it contains. True, the employer does not have to go on maintaining him. But somebody does have to do this, even if his maintenance is at a lower standard than it was when he was employed. Consequently, it is desirable, from the purely economic standpoint, to employ any worker who is able to produce anything at all, over and above the value of the materials and instruments which he uses up—in other words, any worker who can make any *net* contribution towards his keep, even if that contribution is less than the whole cost of his keep. The only exception would be where

a shortage of materials and instruments of production meant that the employment of the worker in question would keep a more productive worker out of a job.

There is, however, a further problem involved in reckoning up the available supply of human agents of production. For we cannot say how great a supply of such agents a community possesses until we know how hard its members are prepared and able to work. This involves two questions—first, how hard can people work, and secondly how hard will they work. How hard they can work depends on their physical and mental condition, in relation to the climate and to the amount of work to which they have been used. Men can work harder in colder countries than in the tropics; men who have been used to the discipline of Capitalism can stand harder work than men who have not; men who are in good health can work harder than men who are ill. Diet obviously affects very greatly the ability to work: so does factory ventilation, and the arrangement of the factory with proper regard for the ease and amenity of labour.

But how hard people can work is not the same as how hard they will work, though the two run together at the point where both are affected by custom—by what men have been used to. In a sensibly organised democratic community, labour would cease precisely at that point at which the product of further effort was not thought worth the further effort which the additional production involved. In other words, labour would cease at the point at which men began to value additional leisure more than additional goods. This point is easy enough for a Robinson Crusoe to settle for himself; for he can put his labour in direct comparison with the satisfaction which he

gets from its product. It is far harder to settle in a community in which men labour to produce goods for the market, that is, for other men, and not for themselves. Capitalist communities, as we shall see, have a way of settling it, as indeed it must be somehow settled in any community. But the capitalist way of settling it does not ensure either that each individual will work up to the point, but only up to the point, at which he prefers more leisure to more goods, or that in the community as a whole labour will be carried to just the point at which the communal advantage of more goods is precisely balanced by that of more leisure.

Sometimes it compels men to labour more than they would choose on this basis: sometimes it denies them the opportunity to work up to this optimum point, and therewith denies them also their right to consume more than the barest minimum necessary to keep them alive. Indeed, in some communities not even that minimum is assured them.

The available supply of any sort of labour thus consists of the number of persons who make it up, multiplied by their willingness and ability to work. But, once more, we cannot simply add together these supplies of all the special sorts of labour, so as to arrive at a general aggregate. To the extent to which each kind of labour is untransferable, it becomes incommensurable with other kinds of labour, just as a coal-mine is incommensurable with a sardine-factory. Moreover, even transferable labour is only imperfectly commensurable; for a skilled engineer may be capable of becoming only an unskilled reservoir attendant; and we cannot reckon his labour at the same quantitative valuation in these alternative uses.

It is, however, the claim of orthodox economists that these apparently incommensurable things are in fact all brought in the world of capitalist enterprise under a common standard of valuation. That standard is money, or rather price: they are all valued at what they will fetch in the market, which measures not only one sort of labour against another, but every single thing that can be brought to market against every other thing. I do not, of course, deny that the pricing system does achieve this measurement. The question is whether it is a valid measurement from the standpoint of the community. If it is valid, in this sense, that makes strongly in favour of the claims of Capitalism as a system. It will not remove the objection that Capitalism has, even so, serious faults: nor will it necessarily constitute a valid defence of Capitalism. But, if this claim on behalf of the pricing system can be sustained, men will be chary of replacing Capitalism by any new system to which the capitalist method of pricing cannot be adapted. For, if we cannot measure one thing against another over the entire economic field, on what principle are we to decide what productive resources to use and what to set aside, and what to do with the resources we do use? We have seen that it is impossible to make directly a quantitative sum of all our productive resources, or directly to compare one type of resource with another in quantitative terms. But to the extent to which things have prices, we can compare them; and we can add up all the prices we can arrive at so as to make a homogeneous total. Can we then estimate the total potential income of the community in terms of money, even if we cannot arrive at its total potential productivity of goods and services?

CHAPTER III

PRODUCTION AND DISTRIBUTION IN A "FREE MARKET"

AN economic Plan is, in its essence, a plan for securing a right distribution of the available resources of production. But what is a right distribution of these resources? All production is simply a means to consumption; and accordingly the "rightness" of production can only mean that production is rightly adjusted to some standard of consumption. We have only pushed the question back a stage further; we have now to ask what is a right standard of consumption.

Orthodox Economics has hitherto disposed of this problem by saying that the sole economic test is that of "effective demand". The productive system ought to set out to deliver to the consumers those goods which they "want" most, the test of want being simply preparedness to pay. On this showing, the highest economic efficiency is reached when people are prepared to pay more for the aggregate of goods and services than they would be prepared to pay for any other aggregate that could be produced by means of the available supply of productive resources. The test of the "rightness" or "wrongness" in an economic sense of producing any particular thing is simply whether it will fetch a higher price than any other thing that could be produced with an equal expenditure of productive resources.

It is, of course, recognised that no community does ever aim at one hundred per cent economic efficiency in this sense. Every community decides not to produce certain things which would fetch higher prices, in relation to the cost of producing them, than certain things which it does produce—e.g. it refrains from pushing its production of cocaine, or whisky, or prostitutes, or betting slips, to the point which an exclusive reliance on the test of preparedness to pay would involve. Every community also decides to provide collectively certain services which it thinks good for its citizens, beyond the point to which they would be prepared, as individuals, to pay for these services an "economic price". Every community further "demands" collectively certain things—e.g. an army or navy—which its citizens cannot individually demand at all. But by orthodox economists all these departures from the test of preparedness to pay on the part of individual citizens are thought of as somehow "non-economic", and as falling at the point at which "economic" considerations have to be harmonised with others which are "political", or "social", or "ethical", or even perhaps "aesthetic".

The contrast here lies not in the nature of the motives underlying the demand; for preparedness to pay for a Bible is no less "economic" than preparedness to pay for a bottle of beer. It lies in the nature of the body which makes the demand effective, or prevents it from being effective. For, whenever the State or any public authority intervenes to demand anything itself, or to influence the demand for it by the individual citizens, the question is no longer simply that of individual wants, but of the collective

expression of needs. Men are no longer simply expressing their own private desires, but formulating on behalf of themselves and others ideas about what men *ought* to want, or at any rate ought to have, or not to have, whether they want it or not. As soon as the State intervenes to affect the direction of demand, we pass out of the realm of individual *wants* into that of social *needs*.

A purely "economic" community, in the sense of the word recognised by the orthodox economists, would have no needs apart from those expressed in the individual wants of its members. Nor would it take cognisance of any individual want unless that want was embodied in some preparedness to pay. I do not accuse the orthodox economists of wanting to achieve such a community; but they do want to get as close to it as they can, while recognising that there are certain collective needs which the State and other public authorities must convert into a form which will make them commensurable with individual demands—that is, by offering prices for their satisfaction. The State pays money to get schools and roads built, to maintain the armed forces, the police and the machinery of administration, and perhaps to relieve distress. It raises the funds for these purposes by taxation, and thus diverts a part of the private incomes of its citizens to its own collective use. This diversion, however, does not upset the working of the economic system because the State, just like any private citizen, offers a price for anything it demands. Forced unpaid labour has gone out of fashion save where it survives in backward countries, sometimes as a *corvée* imposed by white rulers upon native peoples.

In addition to offering prices for things it believes the community needs, the State can also affect the prices which individual citizens will have to offer for things in order to get their wants supplied. It can make things cheap by subsidising their production or sale, or dear by imposing special taxes upon them. The orthodox economists recognise, more grudgingly, that the State may sometimes be right in doing this, at any rate to the extent of making socially noxious or dangerous goods or services artificially dear. They are much more hesitant in recognising the case for subsidies, because, once admitted, it seems to them to threaten far more extensively the structure of the "price economy". But, logically, the two processes stand on the same footing. The only reason for differentiating between them is that the range of things the State may be induced to make artificially cheap is far wider than the range of things it is likely, on social or ethical grounds, to make artificially dear.

But the State can do a third thing, which goes potentially much further than the other two. In addition to demanding certain things collectively on behalf of the community, and making certain things artificially cheap or dear by subsidies or taxes, it can set to work to affect the character of demand by altering the distribution of incomes. It can do this either by passing laws which prescribe minimum wage-rates or, by affecting the ease of entry to a particular occupation, raise or lower the price which those who follow it can command, or by using its power of taxation directly as a means of transferring income from one section of its citizens to another. To some extent the State does this whenever it takes

any step to give relief to the distressed or the destitute, or even when it graduates taxation in accordance with any conception of ability to bear the burden. This re-distributive character of taxation has been greatly emphasised in modern times; but it is in its essence very old. It underlay the tithe system in the Middle Ages, and passed on into the Poor Law after the Reformation had largely destroyed the Church as an agent for the re-distribution of wealth. It became, in the eighteenth and nineteenth centuries, the peculiar bugbear of the classical economists, who saw in it the most dangerous onslaught of all on the working of the price system.

It is true that, whenever the State redistributes incomes by granting relief in money—the same is only indirectly true of relief in kind—the requirements of the price system are superficially preserved; for the recipients of the relief proceed to convert it into demand, in the form of preparedness to pay prices for the things they most want. Even when relief is given in kind, the public body which gives it has to buy the goods, and therefore to offer prices for them. The ritual of the price system is thus preserved; but all the same the economists have an uneasy feeling that its real principles are being undermined. They may have to accept the necessity for some re-distribution of incomes by action of the State, as even the advocates of the new Poor Law of 1834 had to do. But they acutely dislike the necessity, and want to keep it within the narrowest possible limits. In this they are perfectly right—if the aim of society should be to follow as strictly as possible “economic laws”, in the sense in which they are accustomed to use the term.

For, in the eyes of the economists, incomes are prices, fully as much as the prices paid for goods. Buying the use of labour, or land, or capital goods, or even money, is exactly the same process as buying a loaf of bread, or a diamond necklace, or a theatre ticket, or a seat in a bus. You buy, or refrain from buying, all these things according as you are prepared, or not prepared, to pay the prices at which they can be had. You buy more or less of them according as it seems worth while, or not worth while, to acquire more or less at the ruling prices. It is true that the motive for buying the use of labour, or land, or capital goods, or money, to be applied in the business of production, is not directly the same as the motive for buying things in the second group. You buy these latter things because you want to use them for your own satisfaction, or that of your family or friends which you make your own. You can also buy the use of land—for a garden—of labour—for a gardener to look after it—of capital goods—a house to live in, and not to use as a workshop or office—of money—a bank overdraft to be spent on consumption—in just the same spirit as you buy a loaf of bread. But far more commonly the use of land, labour, capital goods and money is acquired, not for the direct satisfaction which it gives, but because these “means of production” can be employed in making things which can be sold for prices large enough to yield a surplus over the cost of buying them. What you are aiming at is the achievement of this surplus. You will not spend your money in buying means of production unless you expect to realise a surplus by their employment.

Thus, the motives in the two cases seem to be essentially different. But the economists go on to

tell us that they are not really different. They push the matter a stage further, by maintaining that what the buyers of means of production really want is not the surplus in money which they get from their use, but the things that money can then be used to buy. Ultimately, they contend, all purchases arise out of the desire for those goods which yield a direct return in satisfaction—"consumers' goods"—and this is no less true of purchases of "producers' goods" than of others.

Undoubtedly it would be commonsense if this were so; for of what use is a "means of production" except to produce things, and of what use are the things it produces unless they give somebody satisfaction? But is it so?

As matters actually stand, I do not think it is. A man, and still more an institution such as a bank or a joint stock company, can desire to be wealthy, not for the purpose of spending his, or its, income on consumable goods which will yield a direct return, but for the satisfaction which being wealthy itself affords, and for the power and security which it confers. A man, and still more an institution, may really aim at the money surplus, and not the goods which can be bought with it. Much of the "saving" that goes on in the world is not of the order of "putting aside for a rainy day", and has no relation to an intention of consuming more in the future at the sacrifice of consuming less now. It is saving for the sake of being wealthy, and powerful, and secure.

This is a point of vital importance in the working of the economic system, and we shall have to come back to it at a later stage. For the moment, we are concerned with it only to the extent to which it

invalidates the claim that all purchases of means of production, and therefore all incomes which arise from their sale, are at bottom just the same as the purchases of finished consumers' goods, and the prices paid for such goods. Let us grant that these incomes are prices, but not that the difference between them and the prices of finished consumers' goods is unimportant.

The economists, however, go on to link these two sets of prices together in another way. Nothing, they tell us, can make a consumer pay more for a thing than he is prepared to pay—short, of course, of compulsion on him by the State or by public opinion to buy. Therefore, such compulsion apart, the consumers fix the maximum prices that things can fetch. But, if this is so, the consumers must also fix the maximum prices that can be paid for the use of all the factors of production that are used up in making things: for, as you cannot get more than a pint out of a pint mug—though you may get less—all the factors of production together cannot command a total price in excess of the price which can be got by the sale of the product. Accordingly, the total income that *can* accrue to the producers is fixed by the consumers' preparedness to pay.

This is, of course, perfectly true. Normally, what the consumers are prepared to pay for consumers' goods consists of their whole incomes less what they prefer to save, but *plus* anything they borrow to spend on consumption. Normally, what is not spent on consumption is "invested", or in other words spent on producers' instead of consumers' goods. By deciding to spend less on consumption and to "invest" more, the owners of income affect the relative demand

for consumers' and producers' goods, and therewith their relative prices and the relative worth-whileness of undertaking their production. As long as all incomes are spent, either on consumers' or on producers' goods and services, there is a balance between the "costs" of producing all these goods, that is, all the incomes paid out to the factors of production, and the prices at which they can all be sold—subject to one important qualification to which we will come in a moment. But if the owners of income elect to hoard some of it, without spending it on anything, this balance is destroyed; for all the goods can then only be paid for with less than the sum of the incomes paid out to the factors of production. In other words, the preparedness to pay of the owners of income may add up to less than the sum of their incomes.

But it may also add up to more; for incomes are not the sole source of purchasing power. It is also possible to borrow. As long as borrowing consists simply of one recipient of income lending part of his income to somebody else, the balance is not upset; for the aggregate of purchasing power is not affected. But if anybody has the means to create purchasing power out of nothing, the balance will be upset, unless the new purchasing power is just enough to offset the hoarding which is going on at the same time. Banks have the means to create purchasing power out of nothing, or again to annihilate that which they have created. Bankers sometimes attempt to deny this, or at any rate to assert that their creation of purchasing power only balances hoarding, because they lend only the idle deposits which people leave in their hands. But nowadays nobody at all, except perhaps a few peculiarly benighted bankers, believes this. It is

generally admitted that banks do and can create purchasing power out of nothing when they expand their advances, and destroy it again when they decide to "contract credit".

This being so, there is, even in the absence of hoarding, no assured balance between the total incomes distributed by the productive system and the total preparedness of the recipients of that income to pay for its products. When bank credit is expanding, total preparedness to pay exceeds the total income distributed in the process of making the goods currently offered for sale. This, of course, expands the incomes which accrue to the owners of the factors of production, and so would seem to restore the balance at a higher total of incomes and prices. But the receivers of the higher incomes now owe the banks a part of their incomes, in interest on and repayment of the advances of purchasing power which they have received. If the banks promptly re-lend these repaid amounts, and go on re-lending them as fast as they are repaid again, the balance can be preserved, provided that the banks either distribute as dividends or go on re-lending all the additional profits which accrue from these loans, in addition to the amount originally lent. But if the banks at any time fail to relend any part of the new purchasing power they have once made, or of their undivided profit, the effect is at once to reduce the sum available for buying goods and services below the sum distributed as income to the owners of the factors of production, and thus to upset the balance.

Moreover, if the bankers, seeing that the money they have made has been successfully absorbed by the economic system, and that everyone seems to be the happier for it, proceed to repeat the dose, the same

effects will follow. The balance will not be lastingly upset as long as the recipients of incomes go on spending all their incomes *plus* the loans, and the bankers go on re-lending all the sums advanced as fast as they are repaid, plus their undivided profits.

But, though the balance between all the purchasing power used to buy things, and all the prices which represent all the incomes of all the factors of production, may under these conditions be upset again and again only to be promptly restored by an increase in the total of prices and incomes, a great many other things will be upset while this process is going on. In the first place, under the existing banking system, nearly all the additional money will have been issued in the form of producers' credits. It will thus go originally to increase the demand for means of production, and not for consumers' goods. It will, however, speedily be paid out by the businesses which receive it in this form as wages, salaries, interest and profits, or as payments for other means of production which will in turn be paid out as wages, salaries, interest and profits. It will thus get speedily into the hands of the final recipients of income, and become part of their spendable incomes.

As the new money filters through in this way, it will tend to raise prices. It will act first on the prices of the means of production for which it causes a larger money demand, and thereafter on the prices of all things on which people choose to spend their increased incomes. But how much it will tend to raise prices will depend greatly on what the economic situation was before the new money was made. If there were in existence large supplies of unused productive power, capable of being worked economically at the prevailing

prices, if only the demand at those prices had been larger, there need in such cases be no rise in prices at all, but only a rise in the aggregate of prices corresponding to the larger quantities produced. There may even be a fall in certain prices if costs of production fall greatly with increased output. There will, however, certainly be a rise in the prices of those things of which more can be produced remuneratively to the owners of the means of production only at a higher price.

If, on the other hand, the new money is introduced at a time when either the available resources of production are already in full use, or more of them can be used remuneratively only at a higher price for their products, prices will certainly rise substantially if any substantial amount of new money is created. In this case, though the "balance" can be again and again restored, it will be so only at a constantly rising level of prices as well as incomes.

A rising level of prices would not matter—assuming the community in question not to be tied to an international price-level by a fixed exchange standard—if all prices rose in the same proportions and all incomes did the same. But it is common knowledge that neither of these conditions is in fact satisfied. Prices rise most unequally according to the varying conditions of production and changes in demand for the different types of goods; and no class of "prices" is affected more diversely than incomes. Fixed incomes suffer most in purchasing value when the abundance of money causes money prices to rise; and unfixed incomes are variously affected according to their different degrees of "stickiness" or mobility. In general, the owners of that factor of production which confers a residuary claim on the margins between

prices and outgoings secure the maximum advantage, shared principally with the lenders of money in a liquid form—short-term loans—and the speculators who derive their incomes from trafficking in stocks and shares, raw commodities, and real estate. The wage-earners gain at first through increased employment, but lose at the same time because the upward movement of wage-rates is usually tardy and uneven. Salary-earners usually lose still more; for they are not as a rule compensated by overtime payments or increased piecework earnings.

The consequence is that the infusion of fresh money alters the entire structure of demand to the advantage of those who live by profits or short-term interest, at the expense of those with fixed or relatively fixed incomes; whereas a contraction in the supply of money produces in the main the opposite effects. Contraction, however, also hits the wage-earners as a class; for, though prices may fall faster than most wage-rates, and the purchasing power of those in full employment may increase, the spread of unemployment will far more than counteract this gain in terms of working-class incomes as a whole. Moreover, the cost of living for necessary goods and services practically always falls much less and much more slowly than the level of wholesale prices; and the prosperity of the workers has to be measured far more exclusively by the cost of living than that of the richer classes.

Changes in the relative prosperity of different sections of the people necessarily carry with them changes in the relative demand for different goods and services. Above all, if the incomes accruing to the richer classes, and the surpluses accumulating in the hands of joint stock companies as reserves, increase

as a fraction of the total income, this is practically certain to lead to an increase in the proportion of the total income which the recipients will try to save, and to a decrease in the proportion that will be spent upon consumers' goods. Saving, however, is worse than useless unless it results, by way of investment, in the production of a larger supply of consumers' goods.

It is true that, as we have seen, individuals and, still more, institutions may save and invest not for the sake of the consumers' goods which their profits will ultimately enable them to buy, but for the mere sake of getting richer, or for power or greater security. But they will not in fact become richer, or more powerful, or more secure unless *somebody* is prepared to buy the goods which the capital goods bought with their investments are adapted to produce. The agony can doubtless be deferred if they erect only factories to make capital goods which are then to be used in making further capital goods, and so on: so that no increased supply of consumers' goods beyond what the market is prepared to absorb is ever produced, however high the pyramid of investment is built. But this is impossible in practice. Somewhere and sometime, the increased investment must result in an increased supply of consumers' goods.

Some increased supply of consumers' goods can doubtless be marketed under the assumed condition of an increasing supply of money, up to the point at which the resources of production have become fully employed; for there will be an increasing number of workers in jobs, and other classes as well will consume more, if not more in proportion, as their incomes rise. But when there is no more unemployment to be absorbed, this is no longer the case. Men

continue to spend more money on consumers' goods as their incomes rise; but if a larger proportion of the total income is being saved and invested, the demand for consumers' goods at rising prices is bound to fall off.

This would not be the case if the increased investment continued so to lower the prices of consumers' goods, through growingly efficient production, as to enable an increased quantity of them to be continually marketed despite the reduced proportion of the total income devoted to buying them. But that this should occur is contrary to all expectation and experience. In times of increasing money supply, the prices of consumers' goods do not fall, for the most part. They rise, quite as rapidly as the supply of money, at any rate after the available unemployed factors of production have been brought back into use.

In these circumstances, if the increased supply of money continues to lead to the saving and investment of a larger proportion of the total income than before, the process of investment soon begins to stultify itself. In the absence of an expanding market for consumers' goods, either the new investments cease to pay, because the goods they are adapted to produce cannot be sold, or, if the new instruments of production bought with the saved money are more efficient than the old, the new investments pay only at the cost of making a number of older investments unremunerative. The owners of these older productive resources, having higher costs, are driven out of the market; and the investing classes as a whole lose on their older investments whatever they gain on their new ones, and have done their saving for nothing.

But there is more to it than this; for the new instruments of production commonly use less labour and more capital than the old. The driving out of the older instruments thus results in a considerable displacement of labour, and this causes the total wage-bill of the community to fall. But such a fall is disastrous, at a time when the community has already reduced its relative spending on consumers' goods, and has at the same time taken steps greatly to add to its power of producing them; for the fall in wage-earners' incomes will serve still further to depress consumers' demand.

By this time, the bubble will be already threatening to burst. For the fall in consumers' demand will be speedily passed back through the traders, who will set to reducing their stocks, to the manufacturers, and will reach the producers of capital goods and raw materials through the manufacturers of consumers' goods curtailing their orders for renewals and replenishments of stocks. As fast as this process comes to the notice of any section of the business world, action will be taken upon it; and before long it is bound to reach the stock and investment markets and the banks. The latter may not much attend to a fall in the demand for short-term industrial advances, even if they are able to identify it, as long as it is covered by a continued expansion in the demand for loans to be used in speculation and investment. Moreover, even if they do notice the fall, they may seek for a time to counteract it by supplying "easier" money. But as soon as the chill hand of fear touches the stock and new investment markets, a crisis becomes inevitable; for the attempt to invest a growing proportion of the total income will both have driven up the prices of

all reputable investments, and have caused a plentiful crop of unsound new issues—the children of business optimism out of public credulity.

In this situation, the current yields on securities giving a variable return will have become abnormally low, and the rate of interest on fixed interest securities abnormally high. The price of both will have been based on an expectation of the indefinite continuance of the high profits and interest rates of the boom period. The removal of this expectation is bound to cause a spectacular stock market collapse, concentrated chiefly on the securities which offer a variable return. This will be accompanied by a practical closing of the new issue market for industrial shares, which no one will be prepared to buy. But there will be no necessary recovery in the market prices of fixed interest securities, except a few of the most unassailable; for the panic will be likely to communicate itself to securities of almost every sort.

Such a panic, beginning in the stock markets, will speedily spread elsewhere. The banks, which have made advances against collateral security at the inflated values characteristic of the investment boom, will make haste to call in a great number of their loans, in order to get ahead of other creditors. Employers will become as pessimistic as they were optimistic a while before, and will discharge hands right and left. Those who still have money at their disposal will hold back from either spending it on consumable goods—for they will expect the prices of these to fall, and will besides be uncertain whether they will not need their money to cover coming losses—or investing it—for hardly any investment will look at such a time likely to turn out well. Therefore

hoarding will be added to the other evils of the crisis. The investment boom, based on the original inflation of bank credit, will have ended up in reducing investment almost to zero. But it will have achieved this, not by expanding expenditure on consumers' goods, but at the cost of reducing that as well, by bringing about a huge contraction in total spendable incomes.

I know that the views which I have been expressing are strongly denied by a large number of economists, most of whom seem to me to excel in misunderstanding the opinions which they attempt to refute. It seems to be a favourite thesis among these economists that it is impossible for a community to save too large a proportion of its income, or for an economic crisis to arise out of "over-saving". But I have asserted not that the crisis arises because the community tries to save too high a proportion of its income, but that it arises because no provision is made for securing the consumption of the increased supply of goods which the saving is applied to promote. A community can save any proportion of its total income it may choose, without any economic crisis resulting, provided that it does not so invest its savings as to lead to a disproportion between the goods it is equipped to produce and the goods it is prepared to buy. If a community is prepared endlessly to add to its capacity to make machines to make machines to make machines, and so on *ad infinitum*, without ever adding to its power to produce consumers' goods, there is no *economic* limit to the proportion of its income which it can save without crisis. There is doubtless a *human* limit; but that is another story.

But if increased investment is applied to making machines to increase the supply of consumers' goods,

there is bound to be a crash unless, by the time the new consumers' goods are ready to come on the market, the demand for consumers' goods is sufficiently expanded to enable the additional goods to be sold at remunerative prices without driving too many of the older instruments of production out of use. Some older instruments must, of course, always be in process of being superseded; but forced supersession at a greatly increased rate is bound to induce a financial crisis, and to bring the whole edifice down in collapse.

In other words, increased investment at any time implies the need for increasing consumption as soon as there has been time for the investment to fructify. If the economic system is so arranged that this is not allowed to happen, a crisis is the inevitable result.

In the foregoing pages, I have tried to trace this tendency of investment to outrun consuming power to the process of bank inflation. If the banks did not distort the structure of demand by the infusion of new money, the tendency could not exist in anything like its present form. Accordingly, I am sure those economists are right who maintain that, given a starting situation in which the resources of production are reasonably fully employed, and given further an intention to retain the capitalist system of production, bank inflation, by which I mean the manufacture of additional money or credit in any form by any irresponsible body, ought to be absolutely stopped, and the creation of such money limited to offsetting increases in population, or such changes in money-using habits as occur when a largely self-subsisting peasant population turns over to industrialism.

It is, however, necessary to insist that this view holds good only if the capitalist system is to be

retained, and only if the supply of money is stabilised at a time when the available productive resources are reasonably fully employed. I shall leave the first of these conditions for discussion later, in connection with the monetary policy appropriate to a planned Socialist economy. But I must say a few words here about the second condition. Broadly speaking, any level of money supply would do as well as any other—provided only that it was stable—but for the complication of existing debts. But at a time when many productive resources are out of use, the levels of prices may be such as to give long-term creditors much too large a share of the national income, and to weigh down many businesses with debt-burdens they cannot hope to clear off without bankruptcy. It may therefore be the only alternative to widespread bankruptcy and repudiation so to increase the levels of prices as to make debt-burdens bearable, and to bring disused resources back into profitable use. This cannot be done without “distorting” the structure of demand; but if it was distorted already as the result of an earlier crisis, the new “distortion” may be necessary to twist it back to a more suitable shape—that is, to a shape better adjusted to the nature of the available productive resources. It is necessary to stress this point because arguments against bank inflation are so often twisted into arguments for allowing bank deflation to continue, however disastrous its results may be.

We can come back now to the point at which we branched off into this long digression about money. We saw that, apart from the possibility of inflation, the preparedness of buyers to pay for goods and services is limited by the size of their incomes; for we

can ignore here the relatively small divergencies that may arise from the expenditure in one period of incomes hoarded in another. This is important in some connections, but not for our present purpose. We can agree with the economists that, bank inflation apart, the prices of all goods cannot exceed the incomes available for spending on them, and that, if there is no hoarding, the sums of prices and incomes will tend to be the same. But, if this is so, and if buyers are free to choose what they will buy and what they will not, no seller can ask for anything a price higher than the fraction of total income which some consumer is prepared to give for it. Everything offered for sale is competing with everything else to attract to itself as much as it can of the limited total income of the community. If more is paid for one thing, there is less to be spent on the rest: if less is paid, there is all the more left.

Now, the economists contend that each buyer is, in a broad way, trying to use his limited income so as to secure the maximum satisfaction from the aggregate of things he buys. This is partly a question of buying one kind of thing in preference to another; but it is also largely a question of buying more or less of a thing according as its price is low or high. In the market as a whole, these two forms of choice appear as one; for if more people each buy one of a thing, the effect on the market is the same as if one person had decided to buy a number. Accordingly, in the market buyers' preferences take on a quantitative aspect, even when they are not quantitative, but qualitative, for the individual buyer. The economist, concerned with the market, therefore usually expresses his meaning by saying that people push their demands

for the various goods and services to the "point of indifference", "substituting" more of one commodity and buying less of another as the relative prices change. This is true of the market, though it may not be true of each individual buyer of each thing.

It follows that the proportion of the total income which a given supply of any particular commodity can command is determined by the market's preparedness to pay for that supply in relation to its preparedness to pay for supplies of other things. Economists usually seek to simplify their problem by assuming that the whole supply of a particular commodity has to be sold at a uniform price; and, though this is very far from being the case, we can, for the moment only, accept the simplifying assumption. On that assumption, it is broadly true that, the larger the supply of anything placed on the market, the lower will be the price at which each unit of that supply will have to be sold. For, if it is all to be got rid of, some of it will have to be sold to persons who are only prepared to pay for it, or for an increased supply of it, a lower price. By the "marginal" price the economists mean the price at which the whole supply can just, but only just, be sold. This, they tell us, will under conditions of free competition be the ruling price.

The owners of the factors of production employed in making the supply of any commodity cannot then get more in the aggregate than the buyers are prepared to pay for that supply. But this does not tell us how this total is shared out among the owners of the various factors. This the economists go on to explain in the same way as they have already explained the

pricing of commodities. In a free market, each owner of a factor of production is in competition for employment with all the other owners, both of the same and of other factors. But this competition is not direct, as in the case of commodity sales; for the *entrepreneur*, or employer, is there to mediate, taking the place of the consumer in deciding which factors of production to employ, and which to reject.

No owner of a factor of production can get more for it than an *entrepreneur* is prepared to pay; and each *entrepreneur* is trying so to distribute his available money resources as to get the largest possible money return. He therefore pushes his demand to the "point of indifference", "substituting" more of one factor, and using less of another, as their relative prices vary. What governs him in choosing between them is not, as in the case of the final consumer, the "satisfaction" he gets from their use, but their "productivity" in relation to their price, or in other words the amount of money value the use of them will be likely to confer upon him as a reward for employing them. Again it is assumed that the whole supply of any particular "factor" has to be sold at a uniform price, and that this price must be low enough to secure that the entire available supply will be bought. On this assumption, the remuneration paid to the owner of every factor of production will coincide with the "marginal productivity" of that factor.

Up to a point, it may be conceded that this is true. The different factors of production are indeed by no means always in competition, in that in many instances the demand for two or more factors is complementary, so that an employer cannot use

more or less of one factor without also using more or less of another. But there are always enough cases in which the relative proportions in which the various factors are combined can be altered by the substitution of some of one factor for another to give the factors a competitive character in the market as a whole. Thus, it is broadly true, on the assumptions of "pure competition", or a "free market", that the total price will tend to be shared out among the various factors roughly in proportion to their respective "marginal productivities".

If I were concerned here with a careful examination of this theory, it would be necessary to make a good many qualifications of this statement. It leaves out of account, for example, the fact that, whereas one unit of money is, within a given currency system, exactly as good as another, the same is by no means true of any other factor of production. It is obviously not true of land, or of durable capital instruments; and it is not true of labour. The "marginal productivity" of labour cannot therefore be discovered by simply adding up the number of labourers, or even of labourers of a particular sort, available in the market, and then discovering the prices at which all these labourers can find a purchaser for their services, on the assumption that differences of skill and efficiency between the individual labourers can be ignored. Nor will the price for the whole number of labourers be settled by the price set upon the services of the "marginal labourer", that is, by the least efficient of them all. Under the assumed conditions of the free market, the labourers will command different wages, according to their varying individual efficiencies; but, as in the Ricardian theory of rent, the rewards of all

the superior labourers will be determined in accordance with their degrees of superiority over the "marginal labourer", so that it will pay the employer just as well to employ one as another.

Of course, no one supposes that, even in the most "free" market one can imagine, wages would rigidly follow this law, any more than the rent of each piece of land is in fact determined exactly in accordance with its productive superiority over land at the margin. But in both cases, and also in that of the prices of durable capital instruments, the tendency does exist, and may be supposed to operate with least friction where the market is most "free". It does therefore appear that, so far, the economists have gone a long way towards making out their case. The remuneration for the use of money does tend to be fixed, on a purely quantitative basis, at that level which makes it just worth while for the last unit of money on offer in the market to be borrowed. The remuneration for the use of other factors of production—land, durable capital goods, and labour—does tend to be fixed, in a more complicated way, at such levels as will (a) equate the reward of the marginal part of the supply—that is, the least efficient part—to the reward of the marginal part of the supply of each of the other factors with which it is competing for employment, and (b) proportion the rewards of the more efficient parts of the supply to their individual superiorities over the marginal part.

So far it has been assumed, as indeed the classical Political Economy always appeared to assume, except in the special case of land, that the whole available supply of each factor will actually find employment, because the price charged for it will be brought down

by competition to a point at which it will pay someone to employ it all. The Ricardians recognised that this was not true of land, in that there could be plenty of land which it would not be worth while to use even if no rent at all were charged for it. But it was tacitly assumed that there would always be a positive wage-level at which it would be worth while to employ the whole supply of labour, even if this was sometimes driven by the competition of labourers below "subsistence level". This, however, clearly does not follow. There is no logical reason why all labour should be usable at a profit to the employer, any more than all land, or all existing instruments of production. This, however, does not affect the conclusion that each factor tends to be rewarded in accordance with its "marginal productivity". It only means that the "margin" is not a determined point, fixed by the amount of the available supply of the factor in question, but a shifting point, set by the condition of the market as a whole.

In fact, of course, the employment of labour is cut off in any community a good while before the point of "zero" remuneration is reached. But there are, even in advanced societies, home-working piece-workers, often contributing a mite to family earnings, or eking out a bare subsistence with poor relief, whose remuneration is much less above the zero point than even the barest minimum wage that a Trade Board could ever fix. Apart from these cases, employment usually stops at any rate at the point where the wage that can be economically offered is definitely too little to provide the means of life. This happens even in the absence of any interference by legislation or collective bargaining with the "free" market, at

different points according to the conventional standards of subsistence prevailing in the community in question.

But what is this "productivity", by which the remuneration of all the factors of production tends to be determined? Clearly it is not physical productivity of goods; for a worker may double his physical output and yet be no more "productive", and command no higher wage, if at the same time the market-price of his products is halved. The productivity in question is productivity of money, and not of goods; for, as we have seen, the aim of the *entrepreneur* is to get, not goods, but a money return from their sale. It is only the expectation of this money return which induces him to employ the factors of production, and he measures their "productivities" exclusively by the contributions which they make to this money return.

Productivity of money is, however, a very different matter from productivity of goods. Suppose the conditions of demand change, so that the current supply of a particular kind of goods can all be sold only at a lower price. At once the marginal productivity of the factors used in producing that kind of goods falls. If they are all to remain in use, their remuneration must fall. If their remuneration remains unaltered, some of them must go out of use. Indeed, their remuneration cannot remain unaltered; for factors which were previously some distance above the margin, and therefore in receipt of higher rewards must now sink to the marginal point. This position may be affected by the existence of combination, either among employers or among workers; but we are here discussing conditions in the "free" market.

“Productivity,” in the economic sense, can thus alter without any change in the physical output of the factors of production.

Moreover, a change in the “productivity” of any factor can affect the “productivity” of other factors, even if these remain wholly unchanged. A new invention may affect the relative “productivities” of labour and capital instruments in a particular process. The capital instruments may become more productive, and the labour less so, without any change in the quality of the labour. In fact, “productivity”, in the economic sense, means simply the power to yield a surplus return to the *entrepreneur*.

In this sense, and in this sense only, the factors of production tend to be rewarded in accordance with their “marginal productivities”, subject to the qualifications which we have made. But these “productivities” clearly reflect throughout the preferences of the buyers of things, as expressed in their preparedness to pay. The buyers are thus the arbiters of the rewards accruing to the various factors of production, subject only to the extent to which the buyers’ power to fix prices is limited by the restricted supply of factors of production. The buyers fix maximum prices beyond which they are not prepared to go. The minima are set by the exhaustion of the supply of factors of production, or, in the case of labour, by the reaching of a point below which the labourer cannot subsist.

Not all the demands of buyers become effective. Indeed, the economic function of prices is to cut off the satisfaction of the buyers’ demands at the point at which their preparedness to pay cuts the minimum set by the scarcity of productive resources. Prices

are a way of rationing supplies, so as to satisfy only those demands which are embodied in a preparedness to pay greater than that of the demands which remain unsatisfied, up to the point at which it no longer pays the *entrepreneur* to supply more goods, because there are no more factors of production to be bought at prices which will yield him a surplus. The "scarcity" of the factors of production thus limits the dictatorship of the buyers over prices. But subject to this one limiting condition, in the "free" market the dictatorship of the buyers is complete. They and they alone determine, by their price offers, what it is worth while for the *entrepreneurs* to get produced, and what it is not worth while.

This dictatorship of the buyers, however, is by no means so democratic as the economists often make it appear. For what counts in the market is not the urgency of the buyer's needs or desires, but solely his preparedness to pay. But clearly a rich man may be prepared to pay a great deal more to satisfy a mere whim than a poor man can possibly pay to satisfy even the most clamant desire. The market takes no account of these differences. It is not concerned with the fact that a shilling means something very different to a rich man and to a poor. In the market, a shilling is just a shilling, irrespective of what it may mean to its owner.

It follows from this that the current valuations of goods and services in the market reflect the current distribution of incomes in the community. A society divided sharply into rich and poor, a society in which all are fairly equal in income, and a society in which there is every gradation from extreme wealth to the direst poverty will have each its own different

schedule of demands, of relative valuations of different goods and services and of different quantities of them. Alter the distribution of incomes in any community, and you at once alter its schedule of demands. But in doing this you alter the relative "productivities" of the various factors of production which are used up in satisfying these demands. In other words, if you alter the income structure of a society *in the present*, you also alter the conditions which will determine its income structure *in the future*.

For incomes, as we have seen, are the result of "productivities". But we see now that "productivities" are the result of incomes. This means that any distribution of incomes in a community, once established, has a tendency to be self-perpetuating. Inequality breeds inequality: equality breeds equality. Of course, this does not mean that the income structure is unalterable; for there are other forces which are continually modifying it—changes in what people are prepared to pay for, apart from any change in the total purchasing power of their incomes; and changes in the technical methods of producing different sorts of things. But it remains true that, through all changes of this order, inequality, once established, or a nearer approach to equality, once established, will have a powerful tendency to persist.

Thus, the rewarding of each factor of production in accordance with its "productivity" turns out, on analysis, to be merely the tendency of the income structure of the community to self-perpetuation. It does not mean that each factor tends to receive what it is "worth" in any absolute sense, but only what it is "worth" in a community in which incomes are distributed in that particular way. In other words,

what it is worth, on the assumption that that is what it is worth.

It follows from what has been said that if a society, by legislation or by any other means, modifies its effective income structure—for example, by using taxation as an instrument for re-distributing incomes, it thereby also modifies the future income structure which will exist even if the taxing policy is afterwards abandoned. For the rewards accruing to the several factors of production in accordance with their productivities will, after the tax has been introduced, reflect the changed preparedness to pay resulting from it, and this changed distribution of income will tend to become self-perpetuating in its turn. This furnishes a strong argument in support of the efficacy of using taxation as an instrument of re-distribution.

But, of course, the effects of such a policy may be counteracted by forces making in the opposite direction. If, for example, technical inventions are raising the "productivity" of capital instruments in relation to that of labour, their effect on the distribution of incomes may greatly exceed that of re-distributive taxation. So may the effects of a banking policy which is either inflating or deflating total money incomes, with distorting effects on their distribution. But this does not invalidate the point that a policy of re-distributive taxation, as far as it goes, does tend to affect the distribution of rewards to the factors of production in a self-perpetuating way.

There is, however, an important difference between the owners of the factors of production in respect of the "pulls" which they are able to exert. Broadly speaking, the available supply of both land and labour is outside the control of its owners, whereas

the supply of money, and therefore of new capital goods also, is not. It is true that land can be held off the market, especially where great landowners possess a sort of monopoly; and the labourers have also a very limited power, by combination, to hold particular sorts of labour off the market for a very brief period, or sometimes, by the control of apprenticeship, to restrict over longer periods the supply of certain sorts of skilled labour. But these are results of combination: they do not exist in the "free" market.

On the other hand, even in the "freest" market, the supply of money and therefore of new capital goods is a controlled supply. It depends on the willingness either of recipients of income to save and invest, or of bankers to create supplies of purchasing power. If wage-offers fall, a part of the available supply of labourers cannot simply disappear. A part of the available supply of money can, if the bankers see fit to annihilate it by restricting credit. Moreover, a part of the supply of savings available for investment can be either diverted to the purchase of consumers' goods, or simply hoarded, so as to disappear, in either case, out of the capital market. The owners of money, whether it be savings or bank money, are thus in a far better position than the owners of any other factor of production to hold up their rate of reward. They can indeed do this only by restricting supply; for they have no power to make borrowers pay more for the use of money than they think it is worth; but they, alone among the owners of the factors of production, can restrict supply even without combination, merely by a number of them deciding, each on its own, that it is not

worth supplying so much money as before at the rates which can be got for it.

The owners of money are, of course, in this respect in the same position as the *entrepreneur*, who decides, in the same way, to supply more or less goods according to the adequacy of the prices which he can hope to obtain. But they are not like the owners of other factors of production, because they alone can use the money which they withdraw from the capital market to buy consumers' goods instead, as well as hoard it without deterioration (apart from possible changes in its purchasing power) until a more favourable opportunity arises for its use. Land also can be hoarded, though not always without deterioration. Labour deteriorates for the most part rapidly with disuse. Under certain circumstances the labourer can use his labour himself, instead of selling it for a wage; but in most settled communities the openings for this alternative use of labour grow less and less, and are least in evidence when the demand for wage-labour is least.

The owners of money—that is, of purchasing power which has not been expended in the buying of specific goods, and therefore retains its money form—thus enjoy a double advantage, in their greater power of hoarding and in their ability to divert their money from the capital market to the buying of consumers' goods, which include, of course, durable consumers' goods capable of being re-sold later, so as to replace the diverted capital. This advantage weights the distributive system in favour of the possessors of money, as against the owners of other factors of production.

But the owner of money foregoes this advantage as soon as he converts his money into the ownership

of any physical instrument of production, including capital goods. For factories and machines are no more capable than other factors, except money, of being either hoarded without deterioration, or applied to alternative uses in which they will yield a direct return in satisfaction to their owners. Actual physical instruments of production are not money: money-capital and capital embodied in such instruments are not the same.

Some economists have denied that money, as distinct from capital instruments of production, can be regarded as a factor of production at all. But clearly it can. It is, under modern conditions, no less indispensable to the *entrepreneur* than other factors, and it commands a price in exactly the same way.

The distinction between money-capital and capital embodied in physical instruments of production is blurred in the world of to-day because the owners of money-capital have found ways of investing it in instruments of production without letting it lose, for the investor, the advantages of its money-form. This is secured by lending it out to *entrepreneurs*, instead of embarking it directly in the purchase of capital goods. The *entrepreneur* who borrows money-capital may himself spend it in buying capital goods; but he contracts with the lender to return the capital at a later date in its money form, and in the meantime to pay interest for its use. The *entrepreneur* thus assumes the risk of converting the money into capital goods, in the hope that he will be able to make by the use of these goods more than he contracts to pay the lender, and that the capital goods he buys will, because of this capacity to yield a larger income, be worth more money than he has spent on buying

them. He may of course be right or wrong in this; and, if he judges wrong, and has no other resources besides what he has borrowed, the lender will suffer for the borrower's mistake. But, if he has other resources—and commonly the lender will not let him have the money unless he has—the lender's claim will have to be made good out of these resources.

In the modern business world, the borrower is more often a joint stock company than an individual *entrepreneur*. The capitalists who own shares in such a company become the borrowers: those who buy debentures are the lenders; and the claims of the debenture holders take precedence over those of the shareholders. The shareholder is primarily an owner of capital goods: the debenture holder is primarily an owner of money. The shareholder replaces the individual *entrepreneur* as the risk-taker with residuary claims upon the surplus: the debenture-holder is a money-lender, exacting usury.

The debenture-holder's money does not, indeed, retain the perfectly liquid form of actual money; for as the rate of interest on debentures is commonly fixed for a period of years, and during this period repayment of the capital sum cannot be demanded, the capital value of the debenture can fluctuate in the market. The debenture-holder, like any other money-owner who makes a long-term loan, forgoes for a longish period the advantage of being able to regain possession of his money, and therewith the chances of taking advantage of short-term upward shifts in the rate of interest. But he is also protected against downward shifts and, save in the exceptional case of perpetual debentures, which are really more like a kind of share, he is promised

repayment of his money-loan at some time in the future. There is, indeed, a risk that this promise may not be fulfilled; and this risk, which attends all lending in some degree, is greater for long-term than for short-term loans. The money-lender cannot escape risk altogether; but he does shift a large part of the risks which attend upon production on to the shoulders of others. And, of course, he demands compensation in the rate of interest for such risks as he does consciously assume.

We are now in a position to attempt to estimate the validity of the claim that no economic "Plan" is necessary because the existing business system does in fact secure the best obtainable distribution of the available resources of production. We must debate this question at two stages, asking first how far the actual business system resembles the "free" market whose conditions we have been considering in this chapter, and secondly how far either the business system as it stands, or any practicable unplanned modification of it, can substantiate the claim to put the available productive resources to reasonably satisfactory use.

CHAPTER IV

CRITIQUE OF A PLANLESS ECONOMY

FIRST, then, how far do actual business conditions resemble those of the "free market" on which the economists base their analysis? On the side of demand there is a good deal of resemblance. The buyers are free to choose, among the things offered for sale, what they will buy, and what reject, at the prices asked; and nothing except compulsion by law or public opinion to buy a certain minimum of certain types of things and the more eternal compulsion to acquire somehow the means of life restricts the range of their choice, within the limits imposed by their varying incomes. The limitation of incomes is, however, in effect a very important influence restricting the range of choice; for it means that most people, being poor, must direct a large part of their incomes to the purchase of necessary products, and, of these, must buy varieties which are cheap. The more indispensable a product is, and the cheaper in relation to possible substitutes, and the less variety it admits of, the more predictable is the demand for it. The demand for luxuries is, on the whole, much harder to predict, though those luxuries which have become the conventional necessities of people with a relatively high level of income may have a fairly predictable demand. It is far harder to predict the demand for the cheaper "luxuries", on which poorer people spend the small

available margin of their incomes; for in this field the variety of choice is wide, and the direction of demand depends on individual preferences, modified by fashion, as well as on the up and down movements of business activity as a whole.

It is, however, of high importance to the *entrepreneur* to be able to predict demand; for as, under modern conditions, he must for the most part produce in anticipation of it, he is liable to make very large mistakes if he is wrong in his anticipations. In order to protect himself against this danger, he not only does all he can to find out what the demand is likely to be, but also takes steps to influence it by a number of devices, which play the most important part in this realm of cheap luxuries, including patent products of every sort and kind. The most obvious and widely used method of influencing demand is advertisement, which comes to represent a larger and larger part of the money cost of "producing" cheap luxury goods, including branded foodstuffs and drinks as well as cheap motor-cars, cycles, gramophones and wireless sets, fountain-pens, and a host of other articles for which there is a wide popular demand. No one who studies the hoardings or the cheap newspapers and magazines can avoid seeing how large a part of their advertisement revenue comes from the makers of goods of these types.

But advertisement is by no means the only way in which the *entrepreneurs* set out to influence the course of demand. A second highly important way uses the retail trader, and sometimes the wholesaler also, as an intermediary between the manufacturer and the buying public. Most manufactured goods can be produced at decreasing cost for a wider public; and

sometimes, especially in the case of non-patentable goods, the manufacturer, instead of swelling his costs by advertisement—which in such cases is liable to help his competitors as much as himself—cuts his selling price to the trader on condition that the trader buys a large quantity, and thus accepts the risks of wrong anticipation of demand. The trader then proceeds to make a special show of the articles of which he has bought a heavy stock, “pushing” them upon his public by window-displays or other advertisement of his own, or often by selling to the public at cut prices. The Woolworth type of shop stands for this policy pushed to its extreme limit. Woolworth’s and similar shops are able to sell cheap because they buy in bulk and take the risks which this involves; but they are also able, with their network of stores, to reduce these risks to a minimum. There are not many things that Woolworth’s buy and cannot sell—at a price which they are seldom under the necessity of cutting below their original estimate.

Obviously, the consumers benefit by this flow of cut-price goods. The very great success of the shops that undertake this type of business gives its conductors a large power of influencing the course of public demand. If Woolworth’s make a very large purchase of very cheap fountain-pens, far more fountain-pens will be bought by the public than would have been bought if this purchase had not been made; and the distribution of the community’s productive resources will be proportionately altered. Similarly, a big advertising campaign may influence the total demand for a product as well as the demand for the variety of it made by a particular *entrepreneur*. In the case of commodities such as bread or tea, for

which the demand is fairly inelastic, the advertising of one branded variety is likely in the main to divert demand from less effectively advertised varieties. Accordingly, there is little advertisement of products for which the demand is inelastic unless they can be effectually branded; and even so the effect on total demand is likely to be small. Advertisement exerts its main economic pull in cases of elastic demand, and even here mainly in the case of patentable or brandable products. What is not patentable or brandable can be pushed as a rule more effectively by other methods, such as bulk sales to traders at cut prices, or subject to special discounts.

In the light of these influences, it becomes clear that the buyer's freedom to choose what he likes among a host of commodities offered for sale, and to affect by his demands what producers will think it worth while to offer for sale in the future, is by no means so absolute as it seems at first sight. To a very large, and to a rapidly increasing, extent, the main body of consumers responds to stimuli offered to it either directly by the producers or by traders acting as intermediaries. This is rendered the more inevitable as the advance of mass-production enlarges the difference of unit-cost between producing large and small quantities, and makes the standardisation of demand more and more a condition of cheap supply. Mass-producers have indeed found means of offering a wide variety of superficial differences between what are in essence identical products. You can have the same thing coloured in many different hues—a motor-car or a fountain-pen, for example. You can even have precisely the same thing sold under different branded labels—sometimes at different prices,

to cater for different sections of the market. You can have identical standardised parts put together in varying ways, so as to create a variety of product. But as long as most consumers are relatively poor, and want far more things than they can afford to buy the best of, there is bound to be a powerful force making for the standardisation of popular demand. If consumers will not have standardised goods thrust on them by advertisement and price-cutting, they will have to do with far less goods. As matters stand, there can be no doubt about their preference. Most of them are not highly sensitive to niceties of design or craftsmanship—and perhaps, though of this I am not by any means sure, the growth of standardisation makes them less sensitive. At all events, never having known the power to have a wide range of choice among the best, they would far rather have Woolworth and Marks & Spencer than go without them.

Indeed, the cut-price trade, while it gives the *entrepreneur*—in this case, mainly the trader—a great power over the direction of popular demand, does actually widen the buyer's opportunities. Though it may restrict the real variety of each kind of goods offered for sale, it increases the consumers' range of choice, by bringing within it many kinds of goods which previously they could not afford at all. This is a real economic gain, of which it is mere obscurantism to underestimate the importance. To place bulk orders for cheap goods, and to sell those goods cheaply to the public, is on the whole a real economic service, even if it sometimes results in the consumer, enticed by mere cheapness, buying things which turn out not to yield him any real satisfaction. This would not be so if the cut-price goods in question were mainly

specious-shoddy, incapable of rendering the service which they promise. But for the most part they are not. They are serviceable, if not durable; they do yield, on the whole, good value for money.

The same cannot be said to anything like the same extent of those products whose sale is pushed mainly by advertisement. For advertisement adds, often very heavily, to the cost of production which has to be recovered from the buyers; and the public does buy many branded and advertised products at considerably higher prices than it would need to pay for as good, or better, products not similarly pushed upon its notice. Drugs are the best known example; but there are hosts of others. A great deal of money is paid away by the public not for the goods but for the label.

Of course, this does not apply to all advertised and branded products; for branding and advertisement may enable a particular producer, by enlarging his share of the market, to supply an article at a lower price, or better quality at the same price. It may enable new methods of production to be introduced, so as to cheapen costs enough to do more than pay for the cost of the advertisement. But when such reductions in manufacturing costs are made, a good deal of them is liable to be swallowed up in the costs of advertising; and the manufacturer has the maximum of opportunity to keep any surplus to himself, instead of passing it on to the public in lower prices. Highly advertised products in which the economies of large-scale production are great are especially subject to rings and combines, designed to hold up prices; and this is most of all the case where the total demand for the products in question is relatively inelastic.

We shall come back to this question of the influence exerted over consumers' demand by advertisement and cut-price policies later on, when we are considering the problems of a planned economy. Here we have only to observe their effects in modifying the conception of a "free market" in which what the *entrepreneurs* supply is simply a response to the free and uninfluenced demands of the consuming public.

But, as we have seen, there are other influences at work to limit this freedom. Every community insists, either explicitly or implicitly, that its members shall somehow acquire certain minimum supplies of goods and services. Where it is an offence to go about naked, everybody must somehow get clothes, even if the climate does not make this necessary, or public opinion enforce it apart from, or beyond, the law. Where it is an offence to be a "nuisance", a man must to some extent keep himself clean, even if the standard enforced be very low. It is an offence in many countries not to maintain one's children, and not to send them to school. It is an offence to let one's dwelling-place become insanitary beyond a certain point. Moreover, there are many taboos which public opinion, apart from law, effectually imposes on most, though not on all, members of a community; and all these are apt to imply compulsion to demand certain things which the individual would not necessarily demand if he were not compelled. Sometimes, as in the case of elementary schooling, the State itself provides free of charge that which it compels its citizens to have. But this influences the structure of production in much the same way as if the compulsion to pay as well as to use were imposed on the individual. For it means that more of the

available productive resources must be devoted to making the things, or rendering the services, which everyone is compelled to use.

The influence of public opinion in directing demand this way or that is of course far more omnipresent and pervasive than that of the law. But it is also far less identifiable. It is a vain quest to try to distinguish between what people would want and demand, within the limits set by their incomes, if they were wholly uninfluenced by the opinions of others and what they do demand, being in varying degrees under this influence which no one can escape. It is, however, pertinent to note that "public opinion", as an influence on demand, blends and mingles with the control exerted by the *entrepreneurs*, whose sale-pushing efforts are largely devoted to creating a "public opinion" in favour of possessing the particular things they want to sell. A great deal of advertisement is designed to set up a "fashion"—from a fashion for taking mustard with your meat to a fashion for having your clothes cut in a particular way, or painting your lips, or playing a particular game requiring special implements, or visiting a particular resort. Sometimes all the producers of a whole type of product join together in a common advertising campaign designed to create a fashion—"Use More Gas", or more milk, "Eat More Fruit", "Visit Your Own Country First", "Buy More Books", and so on. But such campaigns are relatively rare in competitive trades, where each producer more often hopes, by advertising his own wares against others, to get a larger share of the limited market.

It is often said that the growth of popular education, of a mainly uniform type, has made people more

“suggestible”, and thus rendered it easier to create a fashion. I doubt this: I think even our mass-producing educational systems tend on the whole to produce the opposite effect. There is no evidence that people are more suggestible than they were. What has happened is that they have rather larger incomes upon the spending of which their suggestibility can exert an influence, and that the growth of mass-production has also made it commercially far more worth while to exploit this suggestibility. It is true that in the United States, concerned to “Americanise” rapidly a horde of immigrants, special efforts were made to use the educational system as a means of instilling “Americanism”, and that this reacted, to the advantage of American mass-producers, in making the American public more open to mass-influences upon its demands. It is true that Russia is now trying to use education as a means of rapidly turning a backward-peasant-minded into a socialistically-minded community, and that this too reacts in the same way, though not to create the same structure of demand. But these examples prove not growing suggestibility, but its growing exploitation in the realm of consumers’ demand.

Broadly, our conclusion must be that, while it is quite an error to represent production as a mere reaction to consumers’ demand, the consumers’ range of choice is, in general, wider than it has ever been in the history of mankind. But this is not because the consumer has a larger control, but because total productive power has increased, and enough of the increase has gone to the poorer consumers to create a wide and diversified market for goods that are not sheer necessities of life. As production increases,

it is bound to become more diversified, passing from necessities to the wider range of goods and services on which the surplus above sheer necessities can be spent. The range of consumers' choice is thus bound to be widened, even if at the same time the producers' control over the market increases more than proportionately. The *entrepreneur* is bound to offer the consumer a wider range, even if it is growingly at his discretion to select what to offer out of the still wider range of possible alternative products. The *entrepreneur* moulds demand more and more; but the effective scope of choice for the mass of consumers grows wider all the same.

We have, then, not a "free market" in which consumers dictate what is to be produced, but a largely *entrepreneur*-controlled market in which consumers get a good deal of variety. We must now turn to examine more closely the ways and means by which *entrepreneurs* exercise this control, over and above their power, by advertisement and through the intermediacy of traders, to influence the consumers' choice.

In discussing "cut prices" earlier in this chapter, I was dealing mainly not with the familiar point that, in most cases, the cheaper a thing is offered the more of it can be sold, but with the rather different point that the advertiser and the retailer can "push" one thing rather than another on the public, even where the two are equally cheap. Thus, when Woolworth's order a large supply of cheap fountain-pens, but not so large a supply of cheap necklaces, this need not mean, though of course it may, that they can supply fountain-pens at a more attractive price than necklaces; it may mean that they see a chance

of greater profit in the one type of goods than in the other, or even that they simply choose, for the time being, to push fountain-pens and not necklaces, among the wide range of alternative "lines" that are always open to them. If the pens can be supplied at a more attractive price than the necklaces, that is an ordinary case of passing on the benefits of cheap production to the public. But if the motive is greater profit apart from cheaper sale, or is just that they "fancy" the pens more than the necklaces, then Woolworth's are influencing the structure of production and demand quite apart from any new influence coming in from the consumers' side.

But, of course, the main way in which *entrepreneurs* influence market demand is still through prices. If they sell cheaper, they can, save in a few exceptional cases, rely on the consumers buying more in any given economic situation—though it should be observed that this is by no means equally true of capital goods, for which the total demand may, in a given situation, be almost wholly uninfluenced by changes in price. Accordingly, the control of producers over prices is at least as important a matter as their control over the consumers' tastes.

In the "free market" of the economists, it is assumed that manufacturers and traders compete freely one with another without any sort of combination; and, in the "perfectly free market", it is further assumed that no one producer controls enough of the total supply of any commodity for a change in his output alone to be able to influence the market price. It is, however, generally recognised that this condition of things seldom or never exists in any highly-developed industry. Either one *entrepreneur* does produce on

so large a scale that his operations in increasing or decreasing his output can affect the market price, or there exists some sort of combination wide enough to achieve this result. Prices are not in fact habitually kept down by competition to the point which they would reach if each *entrepreneur* placed on the market the quantity which he would be induced to sell under purely competitive conditions; or, if they do reach that point, competition is not usually the only reason for their doing so. Of course, there do still exist trades in which at certain times the conditions approach nearly to those of pure competition—for example, when a combination previously in existence has broken down. But such circumstances are, nowadays, the exception rather than the rule; and, save when exceptional commercial distress has caused an epidemic of “weak selling” by firms threatened with bankruptcy, as in the cotton trade in recent years, the minimum price of the economists is at least as likely to be achieved where a powerful combine exists, or one firm is large enough to dominate the market, as under more highly competitive conditions. For the price that would be the minimum in a purely competitive trade may be high enough to allow a large surplus to the *entrepreneurs* in a trade which is closely combined, or dominated by a single firm able to take full advantage of the economies of mass-production. Of course, this implies that the combine is not weighted down with excessive capital charges, and is efficiently run; and it also implies, as a rule, a considerable elasticity in the demand for the product in question.

Where a combine has been over-capitalised, especially with heavy prior charges, it is usually

harder for it to be efficient, or to follow a policy of large output and low prices; for the prior charges stand in the way of further capital development, which efficient mass-production is apt constantly to require. Over-capitalised concerns are not usually efficient: they are apt, if they enjoy anything of a monopolistic position, to prefer scarcity and dearness to cheapness and plenty. The same is apt to be true where demand is inelastic; for though it may in such cases pay a highly efficient producer to cut prices in order to capture his competitors' trade, it more often pays to enter into an agreement with competitors to hold up prices. The rewards of underselling competitors in an inelastic market are not usually big enough to tempt the large-scale *entrepreneur*.

In an elastic market, however, it often pays best to cut prices in order to increase demand, even in the absence of any competitive compulsion to do so. The decrease in unit costs as output rises must be considerable for this to be the case; but it commonly is so in industries producing consumers' goods by mass methods.

Moreover, the "pure" economist's assumption that all goods of the same sort must be sold in the market at a uniform price is by no means true in practice. According to the pure theory, if an *entrepreneur* is selling 100 units at 1s. apiece, and is considering whether it will pay him to produce ten more which he will have to sell at 10d., he must base his calculations on selling the whole 110 units of his increased output at tenpence apiece. But this is by no means always the position. Even if he was selling all the 100 units at a uniform price, he may be able to sell

an extra ten at 10*d.*, without upsetting the market for the 100 at 1*s.*, or at any rate without having to sell them all for less than 1*s.* This is true above all if the output is being marketed in several different countries; but it is also often the case in the home market. There can be few *entrepreneurs* who in fact sell all their output of identical goods at uniform prices, to the exclusion even of differential discounts. If such *entrepreneurs* do exist, they must be sought among strongly entrenched suppliers of proprietary articles able to impose uniform terms upon the distributive trade.

Thus, it often pays a firm to enlarge its output when it can sell the extra output at a lower price without upsetting the prices charged for the rest of its products, whereas the increase of output would not pay if the entire supply had to be sold at the lower price. But, inevitably, each *entrepreneur* in a trade is apt to resent this sort of price-cutting, which is then allowed only in such parts of the world market as are left outside the scope of a special trading agreement. Often this means the export market—from which arises the curious fact that sometimes a thing can be bought more cheaply, despite transport and other additional costs, in countries where it is not produced than in the home markets of the producing countries. This occurs especially where several nationally organised groups of producers are competing in “export dumping” in “neutral” markets.

“Export dumping” has often been defined as selling goods abroad for less than their cost of production. But who shall say what their cost of production is? If 100 units cost 10*d.* each to produce,

and can be sold for 1s. each, and the *additional* cost of producing ten more units is 4*d.* each, and these can be sold at 6*d.* each, is their sale at 6*d.* a case of selling at less than their cost of production? Yes, if total cost is averaged over all the 110 units: no, if only the *additional* cost of producing the extra units is considered. It is clearly worth the *entrepreneur's* while to produce the extra units; and the consumers of the other units are not being called upon to pay any more than they would have paid if the extra units had not been produced. But the consumer, thinking of average cost, is apt to be aggrieved if some other consumer, probably abroad, is getting the goods cheaper than he; whereas the *entrepreneur*, going by "marginal cost"—that is, the additional cost of producing the extra units—claims that he is harming no one and doing good for himself.

In a perfectly "free" market, this situation could not exist; for perfect competition would bring the prices of all uniform goods to the same level. Actually, it does exist, on a very large and growing scale.

Where the *entrepreneur* cannot isolate his markets and so establish price-differentiations, he is under a greater temptation to prefer dearness and scarcity to plenty involving a lowering of prices that will affect his entire output. Monopoly and combination are therefore likely to lead in many cases to the organised restriction of output; for there is no way of keeping up prices except by limiting the quantity of a particular sort of goods that is placed upon the market. This can be achieved either by fixing standard or minimum prices, which the firms concerned agree not to undercut, or by fixing a standard of maximum output, which they agree not to exceed. The

effect is much the same; for whoever fixes output indirectly fixes price, and whoever fixes price indirectly fixes output. So much can be sold, at such and such a price; so large an output will fetch such and such prices. Of course, in fixing output the firms in question run the risk that the public will not be prepared to buy all they produce at the hoped-for prices: in fixing prices they run the risk that the public will not, at those prices, buy as much as they expected. Sometimes the one method suits better: sometimes the other. Sometimes an attempt is made to fix output and minimum prices together. But no method gets away from the risk of misjudging the market.

We have, then, side by side with the *entrepreneurs'* power to influence market demand by suggestion and advertisement, a second power to influence it by regulating prices and output. So much has been written of the influence of trusts and combines of every sort upon prices that we need say little more about it here. Our purpose is merely to emphasise the fact that every act of fixing or varying prices or output either by a combination of employers or by a single employer big enough to effect the market constitutes a modification of the structure of demand, causing it to be different from what it would have been if the *entrepreneurs* in question had adopted a different policy. It is perfectly true that the *entrepreneurs* can act only within conditions set by the desires and valuations of the consumers, as influenced by their own suggestions; but the point is that there is not, as under the assumed conditions of "pure competition", only one possible reaction of the *entrepreneurs* to these desires of the consumers, but many

different reactions, between which the *entrepreneurs* are in a position to choose. The *entrepreneur* is not merely responding: in this field of prices and output he is, to an ever-increasing extent, selecting the response which suits him best.

Nor is this all. Men do not habitually, except in day-dreams, entertain the idea of purchasing goods which are altogether outside the effective range of choice which their incomes permit. They do not go about the world with potential demand-schedules for every conceivable quantity of every conceivable commodity pigeon-holed somewhere in their minds. They may have potential demand-prices for a little more or a little less of the things they have been used to buying, or for things near enough to their range for them to have debated whether to buy them or not. But that is all. The only demand-schedules which have any reality are those which are embodied in actual demands or lie near enough to such embodiment to be seriously considered by the owners of incomes.

But what demands satisfy or fail to satisfy this condition will depend on what prices are and have been in the recent past. People do not demand things in the void: their demands are based on their experience of what things do and have cost. Consequently, the pursuit of a particular price-policy by a body of *entrepreneurs* will affect the extent of the desire for the commodities which they supply. As long as motor-cars were very expensive, most people never thought of possessing one. Henry Ford quarrelled with his original partners because, unlike them, he had conceived the aspiration of making the American people "automobile-conscious";

and this could be done only by bringing prices down to a point at which it would become possible for a vastly greater number of persons to begin *considering* whether to buy a motor-car or not. Till this had been done, there was no potential demand-schedule for cheap cars. The "cheapish" car had to come first, in order to create even the potential demand.

To this point also we shall come back, when we are discussing the economics of a planned system. It is obviously a point of vital importance, because it involves that to a considerable extent men's desires and potential demands follow the actual course of production, and not, as economists often seem to assume, production the course of actual and potential demand. Apart from the knowledge of past and present prices, could men have any demand-schedules at all? If they had, these would assuredly differ extraordinarily from the actual structure of demand as it exists in response to the current structure of prices.

We have seen that, on examination, the actual conditions of the market turn out to diverge even more from those of the imaginary "free market" of the economists than these worthies, when they come to make allowance for the divergence between fact and theory, are usually ready to admit. Moreover, we have seen that the divergences by no means all arise—though some do—out of the existence of combines or monopolies among the *entrepreneurs*, or out of interference by the State. Many of them are the necessary outcome of the conditions of large-scale production and technical development, wholly apart from trade combination or legislative intervention. Make the market as "free" as it could be made if an economist from Vienna became dictator of the

world: he will not be able to make it the "free market" of his ideal. That "free market" may exist inside the covers of a textbook: its conditions may allow of the most beautifully elaborate diagrammatic or algebraical presentation: it may be made far more fascinating than a chess-problem or an acrostic. What it cannot do is to exist and operate in the world of everyday business.

Not, of course, that the economists' dream-world bears no resemblance to the real world. They are alike, in many respects; for the one is based on isolating certain forces and tendencies that are present in the other. But they are not alike enough for a policy designed for the one to fit the other.

We can come now to our second question. How far can either the economists' imaginary world, or the real business world as we know it, substantiate the claim to make reasonably adequate and satisfying use of the available productive resources *without a plan*?

In the imaginary world of pure competition, the distribution of productive resources is treated as simply a response to the desires of the consumers, as expressed in their preparedness to pay. To the extent to which price-offers can be taken as measuring anticipated satisfactions, it does seem as if such a world would secure the best obtainable use of all the resources of production. It is assumed that all the resources which it is worth while to use at all would be used, because competition would force their owners to accept for them prices which it would be worth some *entrepreneur's* while to pay. There would be no unemployment of usable resources, and every resource would tend to be put to the best possible use, because it would pay best to use it in whatever way would

elicit the largest price-offer from some consumer. Of course, this ideal could never be fully realised, because people would continue to make mistakes both as *entrepreneurs* in anticipating consumers' demands and as consumers in the spending of their incomes; but within these unavoidable human limitations it seems as if a perfect economic *optimum* would be secured.

It has, however, to be taken into account that this *optimum* is a human *optimum* only on the assumption that we can identify preparedness to offer a higher price with expectation of a larger amount of satisfaction. This can doubtless be done in the case of a single buyer, whose readiness to offer more for one thing than for another can be taken as a sign that he values the one thing more highly than the other, at any rate when he is prepared to forgo the one thing in order to acquire the other.¹ But it can by no means be assumed that because there is someone prepared to offer more money for commodity A than anyone is prepared to offer for commodity B—or say, rather, to offer more for an extra unit of commodity A than anyone is prepared to offer for an extra unit of commodity B—that therefore the larger price-offer represents the larger expectation of satisfaction. For the prices which consumers are prepared to offer depend on the sizes of their incomes, as well as on the amounts of satisfaction they expect. It is sheer nonsense to suggest that a rich man's offer

¹ When a person can afford to have both things, a higher price offer for the one than for the other may indicate, not the expectation of a larger amount of satisfaction, but only the habituation to a higher price for the thing in question. I am prepared to offer more for a bottle of wine than for a loaf of bread; but if I had to choose, I should in the end go without the wine.

of £2,000 for an extra Rolls-Royce necessarily represents forty-thousand times as much expected satisfaction as a poor man's offer of a shilling for an extra packet of gramophone needles, let alone for an extra pound of meat. Price-offers in the market represent not proportionate lumps of expected satisfaction, or of desire, but only lumps of desire weighted in accordance with the size of the offerer's income and capacity for being satisfied. Even if we can, for practical purposes, ignore the difference in the capacity of different persons for receiving satisfaction, we cannot possibly ignore the immense difference in their capacity to pay.

The economists, however, argue that this difference does not affect the issue, because people's incomes are the outcome of their differing services to the creation of wealth—or rather of the services of the resources of production which they own. Incomes are prices—prices of the factors of production, which are rewarded, under conditions of pure competition, in accordance with their marginal productivities. The differences of income thus reflect differences of productive quality; and, even if the distribution of productive resources does not lead to the maximum total of satisfaction, it does lead to the maximum total that is compatible with the rewarding of the owner of each factor of production according to its service.

But, as we have seen already, any distribution of income, once established, tends to perpetuate itself; and the several rewards meted out to the owners of the various factors of production express, not their absolute "productivities", but only this tendency to redistribute incomes in the proportions in which they were distributed before. This is apart from the

point that, whereas nothing can separate the labourer from his labour, so that his ownership of this factor of production is an indisputable natural fact, the other factors of production are all clearly separable from their existing owners, and could perform their respective services if they were owned by someone else. Save under a system of slavery, a man cannot give away his capacity to labour, though he can of course give away a day's or a month's actual use of that capacity. But a man can give away his land, or his capital goods, or his money, without thereby necessarily causing them to be either more or less productive than they were. In effect, the ownership of labour by the labourer is a natural fact, whereas the ownership of all other resources of production is purely conventional, and modifiable at will.

Rewards, however, accrue not to the factors of production themselves, but to their owners. Rent is paid, not to the land, but to the landlord, and so on. There is no substance in the view that each factor of production is rewarded according to its service. What does happen is that each owner is rewarded according to the "productivity", as defined above, of the factors of which society recognises him as the owner. It is therefore nonsense to talk of the system of free competition as dispensing rewards to all men according to *their* several "productivities", unless we are prepared to identify the "productivity" of a person with the "productivity" of what he owns. Not only does the theory that free competition works out to a perfect distribution of rewards involve assuming that the rewards were perfectly distributed to start with, because whatever distribution exists tends to be self-perpetuating: it also involves assuming that the distribution

of ownership of the factors of production somehow mysteriously corresponds to the services performed by the owners.

I am, of course, aware that the "pure" economists claim to keep their doctrines clear of all ethical implications. They are concerned, they tell us, not with the ethical justice of distribution, but with its "economic rightness". But I am unable to attach any meaning at all to this mysterious phrase. It would have a meaning of sorts, if we could conclude that the system of distribution under competitive conditions would tend to promote the maximum sum-total of human satisfactions; and it would be possible to distinguish this hedonistic maximum from an ethical maximum of what people *ought* to have. But, as we have seen, it is quite impossible to conclude that the result of competitive distribution does add up to this hedonistic total. It is, in fact, quite clear that it does not—if it can be assumed that there is a given total product to be divided.

It is, however, denied that this assumption can be made; for it is contended that the distribution of wealth under conditions of "free competition" will be that which tends to maximum production, and that any other distribution would result in less being produced. But the foundations are knocked away from under this contention as soon as it is admitted that price-offers cannot be taken as a measure of satisfactions; for the object of economic activity is to produce satisfactions, and not mere goods, apart from the satisfactions they afford. A smaller quantity of actual goods might result in a larger total satisfaction with one distribution of incomes than a larger quantity with another—if indeed the conception of a total

quantity of goods can be taken as having any meaning at all. Under any system of distribution, the total of all price-offers will presumably add up to the same, unless the total amount of money in the community is varied; for price-offers are simply offers of a fraction of the total monetary supply. What matter are not the absolute, but the relative, prices offered for different things: there is no meaning in the idea of a system which will achieve the largest possible total of money-incomes—only in one that will achieve more satisfaction than another.

There is in fact no real basis for the common contention that a purely competitive system will tend to produce the largest possible sum-total of wealth. On the contrary, that result is most likely to be achieved by the system which comes nearest to equality in distribution, and is at the same time most successful in persuading people to use their best efforts in production. Such a system might be competitive, or it might not. Its efficiency in dispensing satisfactions would depend, not on its competitiveness, but on the skill and energy it put into the work of production, and the degree of equality with which it dispensed incomes.

But, say the economists, only under conditions of competition will men be induced to put forth their best efforts. As to that, the economists are in no better position to judge than anyone else; for the question is one not of economics, but of human nature. We shall come back to it later on. But, suppose them right. Even so an economic system might be completely competitive in dispensing the rewards for every sort of human labour, but not competitive at all in its methods of using the services of other factors

of production. There would be nothing to prevent a Society, socialistic enough to have brought the land, all capital goods, the banks and all loanable money under collective ownership, from rewarding every sort of labour according to its "marginal productivity". The "marginal productivities" of different sorts of labour would indeed be very different in such a Society from what they are to-day, when they are measured by the standards of a grossly unequal distribution based on private ownership and inheritance of land and capital. But that is not the point, which is that, if "human nature" does really make necessary a competitive basis for labour, that can be secured far more easily under a system which rests on collective ownership of the other factors of production than it can when the competitive principle is being constantly interfered with by the action of sectional monopolies based on the private ownership of these other factors.

There is, we can conclude, no basis for the view that a system of "pure competition", even if it could exist and could keep all the usable factors of production in full employment, would result in the maximum production of wealth. Much less is there any reason to believe that this result will be achieved by the actual business system, which departs from the competitive ideal mainly in ways which are quite certain to diminish production. In the first place, it is clearly not true that the actual business system does keep in regular employment all the resources of production which are capable of being used to increase wealth, and from the social standpoint worth using for this purpose. For there is no assurance that wages, even in the absence of both Trade Unionism and State intervention, will sink to a point at which all labour will be employed,

or that it will pay *entrepreneurs* better to use all the available resources of production than to maintain prices by leaving some of them unused, or that the "social costs" of production will coincide with the money costs falling upon the *entrepreneur*, which alone usually weigh with him in making up his mind whether to produce or not. The actual business system differs from the imaginary state of "pure competition" chiefly in being subject to numerous restrictive influences which turn the scale against the full use of the available productive resources.

It is, however, one thing to destroy the legend that, under "private enterprise", all is for the best in this best of all possible economic worlds, and quite another to show that the defects of the present "planless economy" would be put right by resorting to a plan. All I can claim so far is to have convicted a good many of the advocates of planlessness of unwarrantable complacency, and to have made out a case for at least investigating carefully the possibilities and prospects of a planned economic system. That brings us back to a question which I put, and deferred attempting to answer, several chapters ago. What does planning involve?

CHAPTER V

PLANNED CAPITALISM

LET us consider, in the first place, what is likely to happen if one part of the economic system is planned, but not another. The easiest case to consider at the outset is that in which a single industry, having been brought under the control of a fairly inclusive combine, proceeds to plan its output. This, we have seen, it can do either by deciding directly how much to produce, and then selling this output for what it will fetch, or by fixing a scale of prices, and then producing as much as it is able to sell at those prices. Sometimes an attempt is made to combine both methods; but in the end either prices must be adjusted to output or output to prices. No combine, however strong, is able to sell as much as it likes at whatever prices it chooses to charge.

The combine we have in mind may decide in favour of either a higher output to be sold at lower prices, or a lower output to be sold at higher prices. It will decide in favour of whatever policy appears to offer the better prospect of profit. Its decision will depend on the one hand on the elasticity of the demand for its products and on the other on the possible economies of producing on a larger scale, which are likely, especially where plants have not previously been producing to full capacity, to be greatest where the processes of production are most highly mechanised

and require the largest capital equipment in relation to the quantity of labour employed.

It is very likely that the existence of the combine will affect the possibilities of mass-production. If it is more than a loose federation of independent firms, it is likely to make possible a higher degree of specialisation, by using one factory exclusively for one narrow group of products or processes, and another for a different group. This will enable mass-production to be carried further than before the advent of the combine, even if the total output remains unchanged. It will therefore probably reduce the factory costs of production, and thus provide some incentive to increase of output; for the more specialised factories will have a larger potential output than they had before specialisation was introduced, and conditions of "decreasing cost" are more likely to prevail.

In addition, the combination of the whole industry under co-ordinated control is likely to make possible a considerable increase in standardisation of the goods produced. Varieties which were the result of competition will tend to be eliminated, especially where they served no real purpose; and this too will tend to lower costs, and to increase the incentive to larger output. Moreover, the combined industry, if its united action extends to marketing, will probably be able to improve and extend its selling organisation, and thus to increase the effective demand for its goods. It may also be able to raise capital and buy raw materials more cheaply, and to bring more effective pressure to bear on the State and on its customers for the concession of differential advantages—tariffs, exclusive purchasing arrangements, and so on.

Most of these factors will make in favour of the combine's preferring to increase its output, even if this means some lowering of prices. For it may pay it best to share the benefit of the economies which it is able to make with its customers, and thus entice them to buy more, in order to extend still further the range of possible economies. But the combine will not follow this policy unless it thinks that the result is likely to be the largest possible profit; and accordingly it will not follow it at all unless the market is pretty elastic, so that a moderate reduction in prices will ensure a considerable expansion of sales. Nor will it follow this policy even where the market is elastic unless there is a prospect of lowering the unit cost of production substantially by increasing sales, save where the additional goods can be so marketed as not to lower the prices of the output previously sold.

It is, in these circumstances, quite out of the question to generalise about the effect which the growth of combines, leading to sectional planning, will have on output. It will increase the output of some things, and diminish that of others, according to the varying conditions of supply and demand in each case. Broadly, it will be likely to decrease the production of elementary necessities, which are for the most part both relatively inelastic in demand and unresponsive to the more sensational economies of mass-production. It will be likely to increase the production of cheap luxuries, within the means of a wide buying public; for these are mostly highly elastic in demand and responsive to mass-production methods. It will be likely to limit the production of expensive luxuries, for which again the market has usually only a limited elasticity, and costs of production fall little with increasing output.

Thus, if we suppose a series of sectional combines, each in pursuit of profit for itself, dominating most of the leading industries, it is clear that the total structure of production will be considerably affected. It will, moreover, be affected in a further way. To the extent to which the combines are successful in their pursuit of maximum profits, they are likely to alter the distribution of incomes in at least three ways—first, by attracting to themselves a certain amount of additional income at the expense of the uncombined sections of the community; secondly, by increasing the strength of the combined *entrepreneurs* in bargaining with their employees; and thirdly by pushing mechanisation further, and thus causing at least some net displacement of labour. After combination, the share of the national income accruing to the *entrepreneurs* is likely to be larger than before; and this will tend to affect the balance of demand for producers' as against consumers' goods.

To some extent, these secondary effects on the distribution of incomes will make against the policy of increasing output, even where the combines would otherwise be disposed to follow it. For they will tend to limit the market for cheap luxuries, which is precisely the field in which mass-production can readily yield up the greatest economies. Thus, the secondary effects of combination will tend to be more restrictive than its primary effects.

Now, a structure of production modified in this way will almost certainly possess an enlarged potential capacity to produce goods and services; for the economies of "rationalised" production will be potentially there, whether they are being actually used to the full or not. But it is improbable that, in the

long run, the advantages to the consumers will outweigh the disadvantages, both because of the growth of restrictive policies, and because the distribution of wealth will have been made more uneven, both as between *entrepreneurs* and workers and between those engaged in combined and uncombined industries and services.

Moreover, the restrictive tendency inherent in combination is likely to be stimulated where the State, possibly under the influence of the combine, pursues a protective policy. Where a combine is faced with foreign competition in its home market—even if that competition be only potential and not actual—its power to pursue a restrictive, price-raising policy is limited. But where protection assures it a virtual monopoly of the home market, it is often induced to concentrate on maintaining prices in that market, in preference to expanding sales, and to let the foreign market go: whereas, if it had to compete in both the home and the foreign market, the home consumers would get the benefit of the price-reducing policy that would be forced upon it. I am not now discussing whether protection is justified on other grounds, but only pointing out one of its inevitable effects on the policy of combines, of which it undoubtedly fosters the growth.

If, then, a “planned economy” means the organisation of industry into a series of fairly closely knit combines each aiming at maximum profit for itself, there is every reason to believe that, despite the advances which such a regime may make possible in the technique of production, the preponderant effect on the volume of output will be restrictive, and the effect on the distribution of incomes unequalising.

The "planned" industries will be able to produce more; but they will actually for the most part produce less, or at any rate much less than they are physically equipped to produce. The result will be seen in the deliberate scrapping of "redundant" factories, and in widespread unemployment of workers.

But now suppose that, side by side with this sectional planning of industry, there is introduced a planning of the monetary system. Evidently, in the sense in which we have been speaking of the "planning" of industry, the monetary system is already half planned. The manufacture of the raw material of money—that is, of currency—is already in the hands of a single monopolistic institution—the Bank of England. The manufacture of credit on the basis of this raw material is in the hands of a closely co-operating group of great Joint Stock Banks—principally the "Big Five"—which are compelled by the nature of the case to follow in the main a common policy. Money is already quite as "planned" as any industry is likely to be under the closest form of capitalist combination.

But there is a difference. The Bank of England is a State-chartered institution which, though it is privately owned, is supposed to be managed in the interest, not of its shareholders, but of the "nation". The leaders of the Joint Stock Banks will tell you that they are managed in the interest, not primarily of their shareholders, but rather of the whole body of depositors, who again are regarded as standing for the "nation". The claim of the bankers is that the banks are not run with a view to securing the largest possible profits, but rather in the service of the nation as a whole.

It is a possible retort that, even if the banks are

not run for maximum profits, they somehow contrive to make very handsome profits, even when a great many other people do not. That is true; but it is not a sufficient answer. It is the case that the Bank of England, and probably the Joint Stock Banks as well, could make larger profits than they do, if the making of the largest possible direct profits were their only concern. They could do so, until an irate public forced Parliament to cancel the Bank of England's charter, and a series of mobs sacked the head offices of the "Big Five". Some show of care for the "national interest" is an implied, if not an explicit, condition of the banks being allowed to carry on business. And, at least in the case of the Bank of England, the pretension is not wholly unreal.

But the bankers have peculiar ideas of what the "national interest" is. The Bank of England, under a direction drawn mainly from the "City Houses" which constitute the London money market, has been apt to think of the "national interest" as consisting above all of the preservation of London's position as the world's financial centre for bills of exchange and foreign investment of capital. Industry has been far more remote from its directors' minds than City affairs; and it has been inclined to tell the industrialists that their prosperity is a mere appendage of the City's. This attitude has been less in evidence since the abandonment of the gold standard in 1931 forced the Bank of England to a completely "managed" currency, and the world slump almost annihilated the market for foreign investments and greatly contracted the turnover of bills of exchange. Since 1931 the Bank of England has thought a good deal more about industry, and been, a good deal less

“deflationary”, than before; but no one knows when it may return to its old love.

The Joint Stock Banks are far less tied up with the City than the Bank of England, and in far closer relations with industry, for which they supply most of the advances of credit. But, as dealers in money, they have a constant desire to prevent it from becoming too cheap. They are, moreover, under no sort of State supervision or control; and they are not regarded, in the same way as the Bank of England, as quasi-public corporations, on their honour to put the public interest first. They are expected to go out for profits, even if they modify their profit-seeking impulses in the light of other considerations. They are more like a closely combined industry, obliged to modify its restrictive propensities for fear it should be brought under public control.

The joint stock bankers' strongest card is that they must safeguard their depositors' interests. This involves keeping their resources liquid, and avoiding long-term commitments such as arise when deposit banks also engage in investment business, as they have habitually done in the United States and to a large extent in continental Europe. Their main business, apart from keeping people's money for them, is short-term lending to producers and traders at home. But what they are prepared to lend in this way is restricted by their desire to keep up the rate of interest to a remunerative level, and to lend only to safe borrowers. If they have resources beyond what they can lend on these conditions—and the amount of their resources depends rather on the Bank of England than on themselves—they must invest; but they will invest mainly in readily market-

able gilt-edged securities and not in more speculative holdings. Their chief concern therefore is with short-term rates of interest and, to a less extent, with the prices of gilt-edged stocks, or in other words, long-term interest rates. Industrial prosperity doubtless suits them best, because in prosperous times all interest rates are high. They are ready enough as a rule to finance a boom, if the Central Bank will let them; but in bad times their policy is usually restrictive, because the elasticity of the demand for money is low, and they are trying to hold interest rates up to a remunerative minimum.

We have, then, already a banking system "planned" after a fashion, and not "planned" exclusively with a view to the bankers' profit. But the profit consideration does count for a great deal. In the case of the Bank of England, what counts most is not its own profit, but that of the "City". In the case of the Joint Stock Banks, their own profits count for much more; and the guiding consideration is apt to be the maintenance of a satisfying price for "money".

Those who demand a "planned monetary system" want something different from this. When they talk of the "planning" of industry, they may be prepared to accept readily enough the idea that the planned industries, apart from a limited group of public utility services, shall continue to be run with a view to the maximum profit for the shareholders; but when they come to consider a "planned" or "managed" monetary system they take up a different attitude, and make the test of a sound banking policy not the advantage of the banks' shareholders, but the provision of a satisfactory supply of money in the service of industry. The bankers are disposed to be

aggrieved at this discrimination, and to contend that what is sauce for the goose should be equally sauce for the gander; but there is something deeply embedded in men's consciousness that supports the difference of attitude. The makers of goods, it is felt, are making real things, and thereby performing a real service, for which they have a right to claim their reward. But money is not a real thing, but a mere means of exchanging real things; and any attitude towards it that involves recognising it as a real thing, and accepting the view that it can "breed", is radically false. Against this deeply-seated prejudice—I use the word in its classical, and not in a bad, sense—all the economists' demonstrations of the nature and necessity of interest may break in vain.

It is not that men deny that money performs an essential service. That is admitted. But the money which is, in any developed society, indispensable for facilitating the exchange of goods and services is felt, as those goods and services are not, to be a social product, which by its very nature ought to belong to the society as a whole, and not to be a source of profit to any special class of money-spinners. Or, if the money-spinner is allowed a profit, it is felt that this is a concession, strictly conditional on his spinning money in accordance with the general interest rather than to suit his own. The business *entrepreneur* who makes goods or renders personal services available to the public is felt to have a productive title to his reward. The money-spinner alone creates nothing. He is only licensed to print tokens against the credit of the community itself.

I feel no doubt that this prejudice of the plain man rests on a sound basis of instinct. The money-spinner

does stand in a quite special relation to the community, which permits him to spin—or rather to make bricks out of its communal straw. The money-spinner is not a producer, but an agent; and he must be content to accept an agent's commission, and to take orders as an agent.

The "planning" of money means, then, its management with a view to the interest not of the bankers, but of the community as a whole. If serving the interest of the community is consistent with earning a satisfactory profit, this does not exclude the leaving of bank business in private hands—provided that the community can effectively exert the required control, and ensure that the private interest of the bankers shall not prevail against the common interest. But, even if the rest of the capitalist system is to stand, banking will have to become a public service if either it does not pay the bankers well enough to run it in the common interest, or the community proves unequal to the task of compelling them to subordinate their private interests to those of the whole.

If the community is to achieve this subordination, it must have a clear conception of what it wants the bankers to do. It is of no avail merely to abuse them when things go wrong, unless the abuse is based on a clear idea of how things could have been made to go right. The possession of a clear idea of what monetary policy ought to be is a need which takes precedence of the need to "socialise" the banking system; for of what avail will socialisation be unless those who control the socialised banks do so with a right conception of monetary policy in their minds?

The function of a well-managed banking system is to facilitate exchanges in such a way as to further the

full utilisation of the available productive resources. It is to create currency and credit in such quantities as will permit a regular and increasing flow of goods and services from producer to consumer, without causing disturbances either in the amount or in the direction of this flow. The function of money is to be, as nearly as possible, "neutral"—that is, affecting as little as possible the relative supply of, and demand for, goods and services of different kinds. If this flow is to be affected by changes in the distribution of purchasing power, under normal conditions the right way of affecting it is by acting upon incomes directly, and not indirectly through changes in the supply of money or the distribution of credit.

But it does not follow, as some economists have contended, that this object will be best secured by making the supply of money automatic, and thus foregoing all attempts to "manage" it. For in no effective sense can the supply of money be made automatic. The supply of currency can, indeed, be definitely fixed, or made to vary automatically with the quantity of gold, or of gold and silver, in the possession of the Central Bank. But neither of these policies will effectively determine the supply of "money", which consists, not only of currency, but also of the credit structure which is raised upon it. It is doubtless possible to lay down limits to the total advances of credit which the banks can make on the basis of a given supply of currency; but it is not practicable, at any rate where banks are private institutions, to insist that they shall lend up to this maximum. Nor, even if this could be done, would the problem be solved; for it matters not only how much the bankers lend, but also to whom they lend it, and

loans made to different sorts of borrowers do not have the same consequences on the effective circulation of money. Even an absolute fixing of the amount of currency would not determine the degree of its use, or the amount of credit that would actually be based upon it—much less how that credit would be employed.

Much less does a policy of making the supply of currency vary automatically with the Central Bank's holdings of bullion secure the desideratum of "neutral" money. For the Central Bank's holdings of bullion are partly within, and partly outside, its control. To the extent to which they are outside its control they subject the community to variations in the supply of money which may arise from a host of irrelevant causes and may often not even serve the purpose of keeping domestic price-movements in line with the movements of prices in the world as a whole. To the extent to which the Central Bank can control its holdings of bullion, the operation of the policy ceases to be automatic and becomes a concealed "management" by the Central Bank. But this "management" is bound to be ineffective, because the control of the supply of bullion is never complete.

It would be better to have an absolutely fixed supply of currency than one dependent on holdings of bullion. The sole argument in favour of the latter is that, if other countries pursue the same policy, the various currencies are linked together in terms of an international standard—provided, of course, that the various Central Banks are always prepared to buy and sell bullion freely at fixed prices in national currency. But the disadvantages of being tied to such a variable international standard are many; for it involves

that inflationary and deflationary movements originating abroad are bound to be communicated to the home economy, and make it impossible either to preserve a regular supply of currency at home, or to adjust the supply to any conception of changing domestic needs. An international monetary standard is apt to be one that suits no single country—unless, indeed, one country is so strong in relation to the rest as to be able to compel them to adjust their reactions to its needs.

But a fixed supply of currency has also serious disadvantages. A rising output can indeed be sold just as well at lowered prices, and without an increase in the supply of money, to the extent to which it is the outcome of greater productive efficiency. But to the extent to which it results from increasing population this is not the case. For, if the higher output due to this cause is to be sold without an increase in the supply of money, prices will have to fall faster than the real human costs of production, and this will involve reductions in the money remuneration of those who own these factors. It will be impossible, in a capitalist economy, to spread these reductions evenly over all incomes. Consequently, their effect will be to distort the income structure of the community, especially by conferring a large increment of purchasing power upon the class of long-term creditors. On this ground alone, the policy of fixing the total supply of money is clearly undesirable under the capitalist system.

Those who recognise this often fall back upon the suggestion that the amount of money should vary only with the size of the population. This would leave the prices of goods to fall in accordance with improve-

ments in the efficiency of production, but only to the extent of such improvements. It would be a rational policy to follow—upon certain assumptions.

The first of these assumptions is that, at the moment when the policy is instituted, the available resources of production are fully employed. For otherwise the re-employment of resources previously disused would have the same effects as a rise in population, and would involve a fall in prices exceeding the rise of productive efficiency. Therefore, if the resources of production are not fully employed, elasticity must be allowed for raising the supply of money to a point which will permit their full use, without distortion of the income structure for the benefit of the creditor classes, and even in such a way as to cancel the advantages accruing to the creditors at the outset. For whenever the productive resources are not being fully used, it may be taken as certain that creditors are reaping a disproportionate gain.

The second assumption is that the regulation of the supply of money extends effectively to credit as well as to currency. But this involves that the policy of the commercial banks must be made to conform to the policy adopted in regulating the currency. The commercial banks must not merely be able to lend up to a certain amount, but must actually lend that amount, in such ways as to make the supply of credit fully effective in promoting transactions between producers and consumers. This requires control of the direction, as well as of the amount, of credit—for example, in order to prevent the diversion of credit to speculative uses. It is, I feel sure, quite irreconcilable with the continuance of the commercial banks as private, profit-seeking bodies.

The third assumption, which is of relatively minor importance, is that the fixing of the supply of money must not preclude provision for known and predictable seasonal variations—holiday and Christmas trade, for example, or crop financing in agricultural countries. This is a relatively simple matter.

The fourth assumption is much more important. It is that there occur no significant changes in the money-using habits of the community. Where, for example, a peasant community is in process of industrialisation, a growing proportion of its total product will be brought to market, and a falling proportion be directly consumed without being bought or sold at all. A community passing through such a transformation will be bound to need a supply of money increasing much faster than its population if it is to avoid serious distortions of its economy through the forcing down of money-prices faster than real costs decrease.

On these four assumptions, or rather subject to these qualifications, the right basis for monetary policy is, I believe, stabilisation of the supply of money *per head of population*. But the qualifications are so far-reaching, and the actual operation of the policy involves so many ambiguous factors, that it is quite out of the question to make it automatic. It should therefore be a direction to the controllers of the "planned" banking system to make their guiding principle the stabilisation of the supply of money per head of population, and to depart from this rule only on clear and carefully considered grounds, which should be publicly stated in each case.

This would involve, if the policy were to be applied to-day,

- (a) an increase in the supply of money sufficient to permit the full employment of the available productive resources without reducing rewards to the owners of the factors of production;
- (b) a subsequent increase corresponding to any rise in population;
- (c) *no* increase to offset increased supplies of goods and services due to rising productive efficiency;
- (d) increase or decrease as required by changes in the money-using habits of the community;
- (e) provision for seasonal variations in the demand for money;
- (f) effective control over the supply of credit as well as currency, and over the distribution of this credit between alternative uses.

It must not be imagined that I suppose that *any* banking policy can by itself secure the full use of the money resources which it makes available. The banking function is confined to making the money available, in a real sense, so that it is at the disposal of claimants for loans who can put up a reasonable case. But no banking system can by itself make sure that a sufficient number of credit-worthy applicants will come forward. To ensure that is a matter not of banking policy, but of the whole economic policy of the community in a broader sense. We have a right to expect the banks to be able and ready to finance the full producing and consuming power of the community: we have no right to expect that they will succeed in doing this if industries are badly organised and the distribution of incomes an illogical mess.

We shall have to come back to this question of the right banking policy for a "planned" economic system.

At this point, we are concerned only to lay down the very broad principles upon which such a policy would have to be based. Our next step must be to consider what would happen if the banking system were effectively reorganised on the lines just suggested, and if the reformed banks had then to deal with a series of "rationalised" industries each pursuing its own profit on a basis of close combination and sectional "planning" of output and prices.

The reorganisation of banking policy would not, in these circumstances, cause the rationalised industries to abandon their restrictive practices. It would still pay many of them better to cultivate dearness and scarcity than to seek plenty through price-reductions. Accordingly, they would not be prepared to take up and put into effective circulation the increased amounts of credit which the banks would be in a position to supply. Nor would the banks, if they continued to be run for profit, be in a position to urge the "rationalised" industries to expand their output. For if the restrictive policy promised to pay best, to abandon it would decrease the credit-worthiness of these industries as borrowers. The banks, then, would have to seek other outlets for their "redundant" money. These might be found in some degree in industries which remained "unrationalised"; but the increase of output by these industries, in face of the maintenance of restrictions elsewhere, could not be pressed far, and keen competition in them would probably result in price-cutting which would react on their credit-worthiness from the standpoint of the banks. Their power to absorb the new money would therefore be very limited.

The banks could, of course, expand their purchases

of gilt-edged securities. But the purchase of such securities in the market—except in the case of new borrowings—results in the speedy return of the money to the banks as the property of their depositors. The banks, in buying securities, only swell the volume of idle money for which they need to find a use.

Finally, the banks could lend to speculators. But this is precisely what they must not do if the increased supply of money is to produce its effect in promoting the fuller use of productive resources, and is not to distort the structure of incomes and production.

There remain, under capitalist conditions, only two possibilities. One is that the increased supply of money will not be used at all, so that it might as well not have been made available. The other is that the Government will come in and borrow it, paying interest to the banks or to the depositors into whose hands it has passed, and using it to promote the fuller use of the available productive resources by means of a policy of public works.

Such a policy of Government spending on public works is indeed the only way of making a larger supply of bank money effective in a situation in which private *entrepreneurs* find it more remunerative to leave productive resources unused. But, if this is to be the outcome, why on earth should the Government submit to pay interest for the privilege of borrowing resources which it has conferred the privilege of creating? Surely the right course is for the Government itself to create the money, paying no interest for its use, but limiting the amount created to the amount that the banks would be allowed to create in accordance with the principles of banking policy laid down earlier in this chapter. If this were done, the Government

would get its public works for nothing: the fuller use of productive resources would be effectively secured; and the responsibility for balancing the new creation of money by increased use of productive resources would rest upon a single authority able to control both sides of the equation.

As far as I know, the only argument ever advanced against this proposal—apart of course from the very natural objections of the banking and money-lending interests—is that the Government, being swayed by political considerations, would not check the creation of additional money at the right point, but would go on creating it after all the available productive resources had been re-employed. This is, of course, only a particular form of the constantly recurrent contention that Governments are always and necessarily stupider or more unscrupulous than business men. But this *a priori* dogma is one which I am quite unable to accept—not because I feel an excessive veneration for the wisdom or integrity of Governments, but rather because I doubt if these qualities are any more assured accompaniments of a system of “private enterprise”.

The conclusion reached in this chapter is that, if a “planned” economy means a series of “rationalised” industries, each manipulating production and prices in its own interest, *plus* a banking system managed, even with the utmost skill and good sense, in the general interest, such a policy offers no solution of the problem of underproduction—that is, of under-use of the available resources of production. It holds out, at best, only the prospect that the State, by intervening with large schemes of public works, may be able to bring the disused factors of production back into

employment, and to do this without incurring heavy debt burdens to banks and private investors for the privilege of using the money of which it has authorised the creation. State action to provide employment is, in such a "planned" economy, as essential a part of the "planning" as the reform of monetary policy. Either without the other is bound to be ineffective.

But it also appears that, the further the "rationalised" industries push their restrictive tendencies, the more disused productive resources will the State have to take into employment in order to redress the balance. Also, incidentally, the higher the "rationalised" industries succeed in keeping prices, the more money will the State have to create in order to bring the disused resources back into use. This is not a "planned economy": it is a warfare of two inconsistently planned systems with each other. On the one hand, the State and the reformed banks are trying to bring all the available resources into use: on the other the "rationalised" industries are trying to prevent them from being used, in order to keep their products scarce and their prices high.

What, then, will happen? If the State respects the wishes of the "rationalised" industries, it will confine its policy of public works strictly to producing things that will not compete with their products. That will drive it mainly into the field of supplying public utilities—the familiar field of public works policies in the past. But this is bound to result in the community getting far more public utilities, in relation to other things, than it would get if the State were not fostering their production as a means of combating unemployment, as well as from the standpoint of social need

for the services themselves. The structure of production will be tipped disproportionately towards the supplying of public utilities, and against the supplying of goods and services of other kinds.

Up to a point, this may be a good thing, from the social point of view; for it may alter the effective weighting of the economic system in favour of a greater readiness to supply the needs of the poor. But even the poor do not wish, or need, to be enriched solely by a more abundant supply of public utilities. They want, and need, more goods of the sorts which the "rationalised" industries are equipped to provide, but will not provide, because it pays better to leave unfulfilled the demands which fall below a high level of preparedness to pay.

What, then, is the State to do? In order to employ the available resources, it may be driven to invade the fields of supply hitherto monopolised by the "rationalised" industries, undertaking the production of the additional goods which they have deliberately refused to produce. As soon as this is done, even to the extent of providing substitutes for their products, their sectional monopolies are broken, and their prices have to fall. But much more than this has happened; for the State has become a competitive producer with private industry. Against this competition, carried on not for profit, but with the deliberate purpose of securing the full employment of the available productive resources, it is clearly impossible for private, profit-seeking industry to stand. The clash between the two kinds of "planning" leads to the downfall of the restrictive "planning" of rationalised Capitalism. The logical end of the public works policy, applied as a remedy for unemployment,

is the occupation by the State of the entire field of large-scale capitalist production.

It is precisely because this is the logical end, and "private enterprise" has at least some inkling of it, that the public works policy meets with such strenuous resistance and that, where States are driven to adopt it in some measure, intense efforts are made to keep it within "non-competitive" limits. To this alone are due the constant assertions of politicians that they have sought everywhere for projects of useful public works, with a sympathetic desire to adopt them, but have drawn blank. They draw blank, because their first law is that such projects must not impinge upon the sacred territory of capitalist restriction. It is inevitably difficult to devise projects for producing more things, without thereby making them less scarce. You cannot make your cake, and not have it. But that is precisely what the politicians, with one eye on the great capitalist interests and the other on an electorate demanding employment, are trying to do.

CHAPTER VI

THE PLANNING OF CAPITALIST INDUSTRY AND AGRICULTURE

DESPITE the fundamental objections raised in the last chapter to the replanning of industry on capitalist lines, it is necessary at this stage to consider more closely the forms which such planning has taken where it has been applied to particular industries in recent years, and the further forms in which it has been suggested for industries still unplanned. For, even if capitalist planning is fatally unable to overcome the inherent restrictiveness of large-scale capitalist enterprise, and indeed is bound in many fields to intensify its restrictive tendencies, it is none the less evident that, as long as the capitalist system remains in being, the necessity for industrial organisation will from time to time arise in relation to a particular branch of production which has got so out of adjustment with current needs as to be unable to carry on under the existing conditions without inflicting great damage on the national economy as a whole. Reorganisation under these conditions will be attempted sometimes by the industry itself in its own interest as a branch of profit-making enterprise and sometimes under pressure from the State on account of the disastrous effects which the disorganisation and ill-health of a particular industry are liable to inflict upon the public and upon other branches of the economic system.

The reorganisation of capitalist industry takes place sometimes purely through the action of the industrialists themselves, without any form of intervention by the State. This has been the case in Great Britain in recent years with the reorganisation of the chemical industry under the auspices of Imperial Chemical Industries Limited, and with shipbuilding, as far as it has been reorganised under the auspices of Shipbuilders' Security. Apart from this, there have been of course a large number of sectional amalgamations and reorganisations of particular firms or groups of firms in other industries, including steel works, textile works, gas concerns and many others. The case of the cotton industry is on the margin. Strictly speaking, no State action was involved in the attempt to reorganise cotton spinning under the auspices of the Lancashire Cotton Corporation; but in this instance, as in some others, the Bank of England took an active part in bringing about the reorganisation, and the Bank was understood to be acting in close conjunction with the Government. Banks have indeed played a substantial part in movements towards the reorganisation of particular sections of a number of industries through the Bankers' Industrial Development Company, which was formed with Government encouragement, and to a less extent through the Securities Management Trust, which is a subsidiary of the Bank of England.

In other cases some degree of reorganisation has been brought about through the direct intervention of the State. This intervention has taken many different forms. The most complete scheme of reorganisation carried through under public auspices is the consolidation of all London passenger transport

services, except those of the main line railways, under the London Passenger Transport Board. Next to this stands the public reorganisation of electricity under the Electricity Acts; but this is less complete in that the grid system controlled by the Central Electricity Board extends only to the wholesale distribution of electric power, both generation and retail distribution still remaining in the hands of a number of separate undertakings. There is of course some control over these undertakings by the State, both in the power to "select" generating stations under the grid scheme in accordance with plans prepared by the Electricity Commissioners and in the State regulation of the prices charged for current by the retail distributors, who have now to acquire their supplies from the Central Electricity Board. In the case of both electricity and London transport, the chief outcome of the reorganisation has been the establishment of a public corporation controlling the industry, or a section of it, with capital publicly owned and with a definite limitation on the operation of the profit motive. This motive does not indeed disappear in either case; for in both the public corporation is under the necessity of earning from the undertaking a revenue sufficient to cover capital charges as well as other running expenses, and in the case of the London Transport Board there is also a provision whereby the expropriated shareholders can still receive a return upon their capital varying in some small degree with the profitability of the undertaking. The profit motive, however, has been very greatly restricted, though it has not been entirely removed, and it can be said broadly that both London transport and electricity, as far as they come under the control of the new

corporations, are now conducted as *quasi*-public services, with the aim of rendering to the public the most efficient service that is consistent with covering the costs (including the capital costs), of the undertaking. The British Broadcasting Corporation, the third great example of a public utility corporation constituted for the conduct of an important economic service, falls outside the scope of this discussion, which is confined to the reorganisation of industries already in existence under capitalist control.

Whereas in the case of London transport and the wholesale distribution of electricity the State has intervened to bring about a completely new form of industrial organisation, in certain other industries it has intervened only to a much more limited extent. Apart from agriculture, to which we shall come later, the chief examples of this more limited kind of intervention are the Coal Mines Act of 1930 and the measures taken towards reorganisation of the steel trade under the auspices of the Import Duties Advisory Committee. In the case of dyestuffs a more extensive form of intervention took place immediately after the war. But this too falls outside the scope of the present discussion, as the measures then taken have been largely superseded by later developments, with the exception of the control by means of licences of imported dyestuffs, which is discussed in a subsequent chapter.

State intervention in the coal industry has so far taken two main forms. The State has intervened to bring the coalowners together, both in each separate coalfield and nationally, into a common organisation for the regulation of both output and prices, without interfering save in these respects with the management

or control of the individual colliery undertakings. But under the same Act the State has also set up a Coal Mines Reorganisation Commission armed with fairly wide powers to bring about the amalgamation of collieries into larger units, even against the will of individual colliery owners. The first of these measures amounts in effect to the establishment of a compulsory coal cartel for the regulation of marketing, very much on the lines of the similar cartels which have been established for certain German industries. The second, while conferring on paper powers large enough to bring about an enforced reorganisation of the entire industry, has in practice so far amounted to very little in face of the reluctance of the Government to encourage or even allow the Commission to make use of its powers. Conceivably the situation in this respect may change, and the Commission's powers may still be employed to bring about some measure of compulsory reorganisation in the various coalfields. But it is clear that this will not happen, except on a small scale, unless the Government puts much more support behind the Commission, and definitely shows its preparedness to coerce the recalcitrant owners into accepting its schemes.¹ Even the compulsory cartel arrangements under the Act of 1930 have encountered considerable opposition from certain sections of the owners, and difficulty has been encountered in securing anything like a general observance of their provisions.

In the case of the steel industry, though the State

¹ The Coal Mines Reorganisation Commission is, indeed, preparing at this time (January, 1935) to enforce schemes of compulsory amalgamation in a few of the smaller coalfields, and in one or two more important cases to bring schemes of compulsory federation into being. But these are very small measures in comparison with what needs to be done if the coal industry is to be adequately reorganised, even on capitalist lines.

has set up more than one commission of enquiry before which ambitious schemes of reorganisation have been discussed, actual intervention has gone only an infinitesimally small way towards bringing about any sort of planned reorganisation. In this industry the pressure to reorganise has been applied not, as in London transport, electricity and coal, directly by Act of Parliament, but by using the tariff as a bargaining instrument. The iron and steel industry demanded protection against foreign imports. It was told that it could have protection only on condition that it did not use its protected position as a means of extorting unduly high prices from the consumers, and of postponing the necessity for reorganisation. Accordingly it was granted a system of protective duties only for a limited period and was threatened with the withdrawal of these duties unless in the meantime it brought forward a scheme of reorganisation that satisfied the Import Duties Advisory Committee of its good faith. In due course, after protracted discussions, the steel industry did produce a scheme. But it is generally admitted that only by courtesy could this be described as a scheme of reorganisation. It was in effect no more than a scheme for the establishment of machinery through which the question of reorganisation might, if the industry so desired, be further considered subsequently. Even this, however, was regarded as a sufficient redemption of the pledges given, and the steel duties were duly renewed for a further period on the strength of this very doubtful willingness to reorganise. At a later stage, they were even continued without a time-limit, when the steel industry had actually agreed to set up a federal association, though there was no guarantee that this body would

be able to take any effective steps towards linking up the industry into a soundly organised service.

It must of course be admitted that, apart from any comprehensive scheme for the reorganisation and planning of the industry as a whole, a good deal has been accomplished towards sectional reorganisation by most of the big groups into which the steel industry is divided. Despite the large number of firms in the various branches of iron and steel manufacture, the effective control is in relatively few hands. For the great majority of the businesses concerned belong to one or another of a relatively small number of great financially integrated groups. Each of these groups, sometimes in conjunction with one or more of the others, has been carrying through large measures of reorganisation, commonly in consultation with the banks, to which most sections of the industry are heavily in debt. It was really more on the ground that reorganisation was proceeding fairly fast by means of these sectional rearrangements than on account of the paper scheme produced by the industry as a whole that the Government felt it had a plausible case for renewing the duties. In fact, it would doubtless have renewed them even if no reorganisation at all had been in prospect; for the protection of the steel trade forms an integral part of the new British protectionism.

In the case of the cotton industry there has been a great deal of talk about reorganisation, and a special Government Committee has reported upon it. The industry itself has put up one scheme after another and is now engaged in discussing the latest of these plans—all of which have been hitherto abortive. As we have seen, the one large-scale attempt at reorganis-

ing a section of the industry that has actually been made—the establishment of the Lancashire Cotton Corporation—was achieved without direct Government intervention largely through the intermediacy of the Bank of England. This ambitious attempt to take over a large proportion of the mills engaged in spinning American cotton was, however, financially a failure, mainly because the Corporation was compelled to take over those mills which were in the most extreme difficulties and most in debt to the banks, whereas mills which were able to carry on by themselves refused to merge their identity in the new body. The Corporation thus found itself with a very large number of inefficient and obsolete properties on its hands, and came to be in effect no more than an exceptionally large competing unit faced with exceptionally high costs of production owing to the circumstances under which it had been brought into existence. The Corporation still exists, but as a contribution towards the effective reorganisation of the Lancashire cotton industry it has ceased to count.

In one other way the State has intervened in the affairs of the cotton industry—by passing an Act by which wage agreements concluded between representative organisations of employers and workers in the weaving branches of the industry can be given the force of law and compulsorily extended to the entire trade. The passing of this Act was an important new departure in State intervention in the regulation of industrial conditions, but it hardly falls within the scope of a discussion of industrial planning.

There remain the measures which have been taken by the State, mainly under the Agricultural Marketing Acts, towards the reorganisation of agriculture. In

agriculture, as in the coal industry, the State has attempted to influence reorganisation by approaching the problem from the marketing end, in the hope that the institution of combined marketing arrangements and the compulsory regulation of marketing conditions would help to bring about corresponding changes in the efficiency of production. As in the case of coal the aim of the State in intervening has been, not to place those engaged in production under the control of outsiders or representatives of the public interest, but rather to encourage the producers to form their own organisations with a minimum of external interference. The method adopted has been primarily that of establishing Marketing Boards for particular products, in the hope both of aiding the farmers to secure better terms from the distributors and of bringing about a better grading and classification of agricultural produce, as well as changes in the types of production based on a better acquaintance with the market and the possibility of obtaining improved prices for standard grades of produce.

In its first form, as introduced by the Labour Government, State intervention in the agricultural field extended no further than this. But under Major Elliot's auspices it has gone much further and become linked with the regulation of agricultural imports. Some of the more important aspects of the agricultural marketing schemes in this second form are discussed in other chapters, and there is no need to go over the ground here.

In the case of wheat, State intervention has assumed a different form, for although the term "quota" is applied to the wheat scheme as well as to certain of Major Elliot's newer arrangements, there is really

nothing in common between them. The bacon quota scheme is a method of limiting the quantity of imports which are allowed to enter the British market. The wheat quota scheme, on the other hand, imposes no direct limitation at all upon imports, but only prescribes the use of a certain quota of British wheat by the milling industry. In the bacon scheme it is the foreigner who is "quotaed"; in the wheat scheme it is the British miller. The bacon quota is a maximum; the English wheat quota is a minimum.

It would be possible to give further instances of State intervention, direct or indirect, aiming at the reorganisation of this or that industry in recent years. But the cases already mentioned are enough to indicate the broad types of intervention which have actually occurred and to prepare the way for a general discussion of the possibilities of further intervention along the same or different lines. As we have seen, the two cases in which the State has gone so far as to take an entire section of an industry and place it under the control of a public corporation acting with publicly owned capital are both in the nature of services rather than productive industries. Of these two measures, the Act constituting the Central Electricity Board was passed by a Conservative Government; the London Passenger Transport Act was originally produced by a Labour Government and finally passed into law by the "National" Government which succeeded it. It is thus clear that, in the case of services as distinct from industries, the adoption of some form of socialisation is not regarded as inconsistent with the retention of capitalist enterprise over the greater part of the industrial field. There were indeed Conservatives who denounced both the Electricity Act and the London

Transport Act as measures of Socialism, but their objections were brushed aside by fellow Conservatives who were no less devout believers in the virtues of private enterprise in industry as a whole.

It seems probable that, whatever may be the party composition of future Governments, further measures of this sort are to be expected. In the case of electricity, for example, the establishment of the grid system has brought about the complete socialisation of the wholesale transmission of electric current, and has thus made possible the provision of electric power over the entire country. But it has already become obvious that this provision is unlikely to become actual unless the retail distribution of electricity is also brought under co-ordinated control. At present the control of retail distribution is shared between a large number of private undertakers and a large number of municipal authorities. The municipal distributors operate under the handicap that their areas of supply are largely determined for them by Local Government boundaries irrespective of economic considerations; nor are the private undertakers immune from similar handicaps, for their areas are defined for them under the Acts of Parliament from which they derive their powers, and these areas have had to be fitted in with the areas already occupied by existing municipal or private undertakings. Naturally, both municipal and private electricity suppliers have in the past concentrated their attention mainly on the larger centres of population; and in most areas, even where there are no statutory objections to the extension of supply into the more sparsely populated districts, the undertakers have been doubtful of the prospect of making such extensions and have preferred to rely on the expectations of

solid profit to be gained from supplying the denser centres of population. It seems perfectly clear that if the retail supply of electricity were being planned to-day *de novo* in accordance with considerations of economic advantage the areas of service would bear very little resemblance in most parts of the country to those which at present exist. Without any hesitation at all it would be decided to establish unified areas of supply covering at the least large regions at present served by a considerable number of separate undertakings. There have indeed existed, under the Electricity Acts, powers which would enable public and private undertakers in particular regions to enter into close forms of combination by the formation of joint electricity authorities on a regional basis. But very little use has been made, or seems likely to be made, of these powers. It is clearly of great social importance that the supply of electricity should be generalised effectively over the whole country, and this is also of economic importance if the best advantage is to be got from the grid system. It therefore seems probable that before long the measures already taken for the national co-ordination of wholesale distribution will be followed up by further measures unifying, at least on a regional basis, the retail supply of electric current. In face of the large share of this service already in the hands of municipal undertakings it is inconceivable that this co-ordination should take place on any save a public basis, by whatever Government it may be brought about. For the municipalities could never be expected to surrender their undertakings to any private capitalist concern. We may therefore confidently look forward to the creation of regional public corporations for the supply

of electricity, covering between them the entire country, and specially instructed to extend their services throughout the smaller centres of population. What the precise relation of these new public corporations will be to the existing Central Electricity Board is a matter of doubt. It may be decided to place them under the supervision of the Board, or on the other hand, they may be left independent of the Board and placed under the control of the Electricity Commissioners as a central co-ordinating authority over the entire field.

The supply of gas raises a problem very closely related to this question of the reorganisation of electricity supply. Despite the very rapid increase in recent years in the output of electricity, and the fears expressed from time to time by the gas industry that the competition of the new source of power would decrease the consumption of gas, there has been a rapid (though not so rapid) increase in the output of gas as well, largely as an outcome of housing activity. To a considerable extent electricity is of course displacing gas as a source of light, but only in a few areas has it made any serious inroads into the use of gas as a source of heat. In the larger centres of population, it seems clear that gas is doomed to practically complete supersession for lighting purposes, and that it will have to share the field of heating with electric power. But in the smaller centres of population a somewhat different problem arises. For it may be impossible without serious economic loss to offer consumers an unfettered choice between the two forms of supply. It may, therefore, be necessary to arrive at some definite allocation of spheres of activity to the gas and the electrical industries, so

that even if electric lighting and electric power for the farm become common possessions of the entire countryside, gas heating, which seems likely to remain cheaper over a substantial part of the field, may be able to retain its position at any rate within certain scheduled areas.

This question of the relative advantages of gas and electricity as sources of heat and power is obviously very highly technical. Hitherto it has been discussed almost exclusively from a partisan point of view, by fervent believers in the virtues of one or other of the two services, and very often from the point of view of one or another of the vested interests already in the field. At present gas undertakings vary enormously both in size and in efficiency. There have been of late a considerable number of amalgamations of contiguous gas undertakings, designed to bring about an improved service, while just recently much larger schemes of amalgamation have been in the air. But for the time being the proposal to reorganise the entire gas industry, or at any rate certain large sections of it, on the same lines as the service of electricity supply seems to have dropped into the background, and little has been heard of the proposals mooted some years ago by the National Fuel and Power Committee for the institution of a "gas grid".

Frankly, I do not possess enough technical knowledge to form any judgment either about the relative advantages of electricity and gas in those fields in which they are still contending for supremacy, or about the economic possibilities of long-distance transmission of gas from the industrial areas to the residential districts. Long-distance transmission has been extensively adopted in certain parts of the

Continent, notably in Germany. But I am aware of no sufficiently authoritative or impartial verdict on its economic possibilities in this country. What is clear is that both these questions need the most careful consideration by some body capable of weighing the relative advantages of the two forms of service. This seems to indicate that if it is decided, as it well may be, to bring about a reorganisation of the gas industry under a system of regional public corporations similar to those suggested for the retail supply of electricity, it will be indispensable that there should be set up some common authority for the co-ordinated control of the two services from the standpoint of the public interest. This authority would need to have wide enough powers to allocate spheres of activity and to regulate the rate and forms of capital development in both services.

There remains the question of the generation, as distinct from the wholesale or retail transmission, of electric power. The control of this service, like that of retail distribution of electric current, is at present shared between municipal and private undertakings. It has already been subjected to some degree of public regulation through the selection and discarding of generating stations under the grid scheme in accordance with plans prepared by the Electricity Commissioners. But, even after this reorganisation in connection with the grid, the control is still divided between public and private undertakers, and the separate stations remain financially independent concerns.

Under the new conditions both municipal and private generating stations will sell their entire output of energy to the grid, and will therefore no longer be hampered by the geographical limitations hitherto

imposed upon their areas of supply. In these circumstances it may not make a great deal of difference whether they remain in the hands of their present owners or are brought fully within the scope of the new form of public control. It seems, however, to be an anomaly that they should remain outside; and if, as is suggested, the retail distribution of electric power passes under public ownership through a series of regional corporations, it seems most probable that at the same time the ownership of the actual generating stations will be transferred to the Central Electricity Board. The public authority will thus acquire complete freedom in the development and discarding of stations in accordance with considerations of economic efficiency.

To what other industries or services, besides gas, is the form of control so far applied to the bulk transmission of electricity and to London passenger transport likely to be extended, irrespective of the political complexion of the Government in power? I am not now considering what industries or services a Labour or Socialist Government might decide to bring under public ownership, but only what industries or services might be socialised even by an anti-Socialist Government. The most obvious fields for a further extension of this form of planned reorganisation are the supply of water and the main-line railway system. The former of these is much the more probable field for the next advance of social ownership; for it is universally admitted that the water supply of Great Britain is grossly defective, especially in the country districts, and that there is no chance of any effective reorganisation being brought about under private auspices. If the country wants an efficient water supply for

the villages as well as for the towns, there is only one way of securing this, and that is the establishment of a public corporation working with national capital.

The case of the main-line railways is far more controversial. Already the amalgamation of the large number of separate railway companies which existed before the war into four great companies—which now between them cover the entire country—has been brought about by Act of Parliament, and under the Railways Act of 1921 the State controls the fares and freight rates charged by these companies. If the system were to continue to be operated on the present technical basis it is improbable that its reorganisation under a single public corporation, into which the four existing companies would be merged, would make very much difference to the quality or cost of the service; for the existing companies have already entered into a number of close working arrangements, and the economies which could be achieved by complete amalgamation are in all probability not very great. A quite different situation would, however, arise if it were decided to act on the proposal that the main-line railways should be electrified. This proposal was first fully worked out and recommended in the Weir Report of 1931. In this Report the capital cost of the complete electrification was put at £261,000,000, not including a further £80,000,000 which would have to be spent by the Central Electricity Board in extending its service in order to meet the increased demand for current. According to the estimates of the Weir Committee, this expenditure of £261,000,000 might be expected to bring in a return of round about 6 per cent in the long run, after

allowing for a price for electricity supply by the Central Electricity Board sufficient to cover the interest on the capital expended by that body. These estimates were, however, even at the time, highly conjectural, for they depended on very uncertain anticipations about the future volume of railway traffic and the future course of road competition with the railways. They are, moreover, now wholly obsolete, owing to the very large changes in the prices of constructional goods which have taken place since they were made. Only a new investigation, taking the Weir Committee's Report as its starting point, would show what the financial prospects of electrification are likely to be under present conditions. And even the most careful enquiry could hardly advance beyond a guess in face of the extreme uncertainty of future transport conditions. There is, moreover, an additional factor of doubt, in that complete electrification is not the only possibility that is open. The Weir Committee dismissed partial electrification as likely to prove uneconomic except for a limited number of suburban or semi-suburban lines, such as the Brighton scheme. But it gave relatively little consideration to the possibility of Diesel engine locomotives serving as feeders on branch lines to a system of electrified principal lines. Before any scheme is again brought forward for practical consideration, this and a number of other alternative possibilities will need to be explored.

Moreover, it is evident that, if any plan for either partial or complete electrification is seriously considered, it is bound to raise again the whole question of railway nationalisation. It would be clearly quite out of the question for the railway companies to raise

the capital needed for even a partial electrification scheme without a State guarantee. But if the State were to be called upon to guarantee interest, and perhaps principal as well, on the huge capital that would be required for electrifying even the principal lines, it might easily come to seem desirable, even to the most determined opponents of Socialism, to bring the railways under direct public ownership rather than to place them under the hybrid system which a partial State guarantee to their shareholders would involve. It is unlikely that railway nationalisation will be carried through except by a Socialist Government, apart from electrification; but it is extremely likely that electrification will be found to be impracticable without nationalisation.

Anti-Socialists as well as Socialists may be fully prepared under certain circumstances to advocate the public ownership of a particular service, though of course the anti-Socialist is always likely to set out with an initial prejudice against public ownership and to demand that the case for it must be proved in any particular instance on quite exceptional grounds. But though Socialists and anti-Socialists may agree that a particular service ought to be socialised, they are likely to disagree very greatly about the form which socialisation ought to take. It is true that nowadays Socialists recognise fully the need for establishing some form of self-managing organisation for each service that is brought under public ownership, and that the idea no longer exists—if it ever did really exist—that socialised services could be effectively administered merely by placing them under Government departments of the ordinary Civil Service type. Socialists and anti-Socialists agree in holding that

the right form of administrative organisation for socialised industries or services is some form of public board or corporation, which will free the management from day-to-day external interference and will also ensure that the financial accounts of the socialised services shall be kept clearly distinct from the ordinary State budget.

But this apparent agreement in principle about the most desirable form of organisation really masks fundamental differences. For whereas the anti-Socialist advocates of socialisation for the most part desire to create public corporations as far as possible in the image of private enterprise, and to remove them to the utmost possible extent from every sort of political interference or control, Socialists on the other hand, regarding the socialisation of a particular industry or service as a step towards the institution of a planned Socialist economy, desire to safeguard the right of the representatives of the public as a whole both to control the policy of each socialised service and bring it into close relationship with the policy of other services which already are or may hereafter be socialised. Accordingly, while both parties agree that day-to-day external interference with the ordinary conduct of the management ought to be excluded in the interests of efficiency, the Socialist advocates of socialisation are wholly opposed to attempts to preserve the business character of socialised services, or to give the boards which are established for their management a final freedom from ministerial control. Of course anti-Socialists will agree that in the last resort political control cannot be excluded, since any socialised service is bound to be worked under the authority of an Act of Parliament which Parliament can at any time amend.

Subject, however, to this limiting condition, they usually desire to exclude any administrative interference by a departmental Minister, or by the Government as a whole, with the working of the service. With this object they usually seek to secure that appointments to the governing board shall be made in some non-political way, at any rate in part, that the tenure of the members shall be independent of ministerial action, and that where questions of compensation or other forms of payment, or of the competence of the governing board to undertake some particular action, fall to be decided the appeal shall lie not to a Civil Service department or to the Government as a whole, but to some non-political court of arbitration, whether it be the ordinary Law Courts or an authority constituted *ad hoc*.

Clearly this difference of view depends on differences of fundamental attitude about the conduct of industry. Socialists in all cases hold that the control of industrial policy is a matter so fundamental to the wellbeing of society that it cannot possibly be left outside the scope of governmental authority without stultifying the power of democratic self-government. They hold that all industries ought to be conducted in accordance with a comprehensive plan directed to the public interest and finally subject to democratic control. Accordingly they regard the self-government of any particular industry or service as limited to the executive control of the measures necessary to carry out a policy laid down for the industry on behalf of the entire society; and they regard the Government, or whatever special economic organ it may appoint under its final control, as the authority which must be responsible for laying down and modifying as need

arises the general lines of policy for every separate industry.

This view indeed seems to follow logically from any belief in the virtues of a thoroughly planned economy; and, if anti-Socialists are believers in a planned economy in any real sense, they will be compelled either to accept the Socialist conclusion that industrial policy must be subject to parliamentary control or to devise some alternative arrangement which will appear to make it the expression of the will of the community, and not merely of a series of separate and irresponsible governing authorities for particular industries. Various ideas have been mooted with this object in view. There has been a good deal of talk, most of it rather vague, about the possibility of a separate and independent economic organisation of society parallel to the political Parliament but autonomous within its own sphere of action. On such an authority, in the form in which it has been advocated by anti-Socialists, employers, traders and financiers, as well as technical, administrative and manual workers, would have some sort of representation; and an industrial "self-government" based on the collaboration of these different elements concerned with industry would be regarded as satisfying the claim that society must reserve to itself the final authority in economic matters.

This idea is of course most fully worked out, at any rate on paper, in the development of the Corporative State in Italy. Italy under Fascist rule is now in process of creating for herself a complete corporative organisation parallel to the political Parliament; and Signor Mussolini has again and again declared that in due course this corporative organisation will supersede the Chamber of Deputies as the responsible organ of

the State in the economic sphere. In practice this corporative organisation hardly yet exists,¹ and certainly does not exercise the effective control over industry or over economic policy. What it may come to do in the future remains to be seen, but it is evident from the structure of the new Corporations that the intention is to give the Fascist Party the same predominance in them as it already enjoys in the remodelled Chamber of Deputies, so that in effect under the Corporative system the unity of political and economic policy is to be secured through the ultimate control of the Fascist Party, and there is no final self-government through either the economic or the political organs of the State. Obviously if the economic and the political organs were really independent of each other, and each was ultimately responsible for the formulation of policy in its own sphere, there would be a danger of disastrous clashes between them; for it is quite out of the question in modern society to keep political and economic issues apart. If the Fascist party did not exist as an ultimate co-ordinating authority some other form of co-ordination between the political and economic organs would have to be devised.

Superficially the structure of the Corporative State, as it is being worked out in Italy, bears some resemblance to proposals which have been put forward on more than one occasion from the Socialist side. The Guild Socialists have proposed that within a Socialist community the control of industry should be entrusted to a number of self-governing Guilds, each responsible for the internal management of its own industry or

¹The statutes creating the new corporations were for the most part only proclaimed in 1934.

service, and all co-ordinated through a Guild Congress or Council which would control industrial policy as a whole. In advocating this, the Guild Socialists fully recognise the need for final co-ordination between this inclusive Guild body and the political organs of government in a Socialist community; and they have made various proposals for bringing this final co-ordination about.¹ But, apart from this, the Guilds proposed by the Guild Socialists are utterly different from the Corporations now in process of formation in Italy. For the Guild Socialists assume in their society the complete disappearance of the employers as a distinct economic class and the full social ownership of the means of production. Their Guilds are accordingly to be associations of all the workers by hand and brain engaged in a particular industry or service; and the governing bodies of these Guilds can claim to be democratic because they represent the entire personnel of the industries concerned. The putting together of these Guilds into a comprehensive Guild Congress is thus held democratically to represent the entire community in its economic aspect. But obviously no such claim can be set up on behalf of bodies which are based on the separate and heavily weighted representation of different economic classes. It can be claimed that such bodies represent society in its economic aspect, but the claim involves a denial of democracy and the assertion of an aristocratic or at any rate an oligarchic theory of government.

The Fascists on the one hand and the Guild Socialists on the other are at least clear about the broad essentials of the economic structure which they

¹See my *Guild Socialism Restated* and *Self-Government in Industry* and S. G. Hobson's *National Guilds and the State*.

desire to create. But there have been in recent years in democratic countries a good many projects of so-called industrial self-government which have been very far from clear. In Great Britain the Trades Union Congress has toyed with the idea of a National Economic Council based on direct economic representation; but some Trade Unionists have appeared to advocate this scheme in the belief that it was to be based upon the socialisation of industry, while others have appeared to contemplate the creation of a joint representative authority by the Trades Union Congress and the Federation of British Industries. The consequence has been a terribly muddled series of proposals, upon which it is impossible to pass any useful comment because there is no way of discovering what they really mean, even in the minds of their advocates.

It has always been asserted by the Guild Socialists, in my opinion with undoubted truth, that any real joint control of industry by employers and employed must be out of the question. It is possible to build up greatly improved methods of consultation and negotiation between employers and employed, and by this means to get the two parties to discuss their common problems of economic organisation and policy, and sometimes to agree about them and co-operate in giving effect to agreed proposals. But, as long as industry is privately owned, the ultimate control of it remains in the hands of those who own it, or of those who represent their interests, and the concession of partial "joint control" to the employees never becomes more than a revocable act of grace, upon which the owners can at any time go back by a mere refusal to accept the conditions desired by their employees. Improved machinery of consultation may advance

industrial efficiency and make for smoother working, but it cannot, under private ownership, really result in joint control. It is possible, no doubt, for the employers to establish some form of subordinate self-government among their employees by handing over to workshop organisations constituted by and among the workers the actual detailed organisation of certain parts of the work. This has been done for a very long while through the printers' "chapels" over a large part of the printing industry, and to a less extent in individual factories in other trades. This form of "workers' control" can on occasions work out extremely well, giving the workers effective control of that part of their conditions of service which most closely affects their daily working lives and is most clearly within their competence to understand. But concessions of this sort, like the wider concessions discussed above, necessarily remain, at least in form, revocable and conditional upon the employers' consent as long as the ownership of industry remains in private hands. Moreover, the extent to which this delegation of power to workshop bodies is practicable differs widely from industry to industry.

In the earlier part of this chapter I have discussed those industries and services in which it is possible that some form of socialisation may be brought about with the consent of anti-Socialists as well as Socialists. As we saw, this is unlikely except in the case of services, for the anti-Socialist usually finds his sticking point on the border line between public services and productive industries in the narrower sense. There is indeed one great productive industry which lies so near the margin that it is conceivable that some form of socialisation might be advocated for it even by anti-Socialists.

But though the coal industry is very closely related to the group of services considered earlier in this chapter, the mere fact that it is a great productive industry, and that its socialisation would set a precedent for the public ownership of other industries, causes suggestions that it should be brought under public conduct to meet with far more hostility in anti-Socialist quarters than a proposal to complete the socialisation of electricity or gas, or even of the railway service.

When the question of socialising the coal industry was seriously considered immediately after the war, there appeared, in what was known as the "Duckham Scheme", an attempt to find a half-way house between public and private conduct. Under the "Duckham Scheme" the coal industry was to be compulsorily organised into a series of regional cartels which were to be set up by Act of Parliament with constitutions laid down for them by the State. These constitutions were to provide for the representation of the workers as well as the owners upon the governing bodies, and there was to be a substantial amount of State control over the operations of the cartelised services. This proposal was on very similar lines to the original "Geddes" proposals for the reorganisation of the railways; for in these, too, provision was made not only for the compulsory grouping which was ultimately carried out, but also for the representation of the employees on the new controlling bodies. This latter proposal was, however, dropped in the course of the subsequent negotiations, in face of the strong hostility of the railway managements and of the general body of employers' opinion; and the railwaymen accepted instead the recognition of their Trade Unions and the establishment of new machinery for negotiation and

consultation about labour matters. In the case of the coal mines, not only were the "Duckham" proposals for workers' representation dropped, but the whole scheme for the compulsory reorganisation of the industry faded away in face of the uncompromising opposition of the coal-owners and the support accorded to them by other property-owning interests. When a form of compulsory cartelisation was at last resorted to under the Act of 1930, its immediate operation was confined to marketing, and it made no provision—save in the highly contingent form already referred to—for the reorganisation of the collieries as productive concerns. Nor did it attempt to introduce any form of workers' control; and even the machinery which it was proposed to set up for wage negotiation never became operative in face of the coal-owners' determined opposition.

The other industry in which proposals have recently been put forward for the creation of a sort of half-way house between public and private control is the iron and steel industry, for which the Iron and Steel Trades Confederation, the chief Trade Union organising the workers, has put forward, with the endorsement of the Trades Union Congress, a scheme for constituting a compulsory corporation linking together all the existing businesses through a number of sectional groups dealing with particular types of product. This corporation, in the form proposed by the Trade Unions, would include provision for workers' representation and would be a statutory body exercising compulsory powers under the authority of the State. It would, however, leave in existence, for the time being at any rate, the private ownership of the separate firms, and would aim only at bringing them all under the regulation of a

common policy prescribed by the new corporation. There is of course not the smallest sign of willingness on the part of the iron and steel employers to accept any scheme on these lines; for, as we have seen, they have so far resisted the demand that they shall draw up an effective scheme of reorganisation, even though there was no suggestion from the present Government that this scheme should embody any provision for workers' control.

It is indeed by now clear enough that the hopes which were widely cherished a decade ago that industry could be reconstructed on a basis of private ownership in such a way as to include a satisfying measure of workers' control are entirely impracticable. The large aspirations of the "Whitley" Reports of 1917 have completely faded away, leaving behind them only certain pieces of machinery which are in no wise essentially different from the numerous conciliation boards and other negotiating bodies which existed before the war. It has become clear to most people that any sort of real joint control involves a community of idea and object between the groups which are to share authority. Joint control, therefore, cannot be realised within a society in which workers' and employers' organisations hold and endeavour to further fundamentally divergent views about the future of industry. A form of joint control is possible under Capitalism only where both workers' and employers' organisations have been firmly disciplined under the authority of a Fascist Party proclaiming the omnipotence and omniscience of the State and upholding class differentiation as necessary in the interests of the "totalitarian" State.

Let us now turn from proposals which have been

mooted for the reorganisation of industry to what has been done and proposed in the field of agriculture. The problem is here essentially different, both because it involves the separate but closely related problem of land ownership and because the normal unit of business in agriculture still remains very small, whereas the discussion of planning in industry has been in practice almost confined to those major industries which are organised upon a grand scale in large units aggregating huge masses of capital and making extensive use of mechanical power. In agriculture there is no question, at any rate in Great Britain, of the speedy socialisation of farming. Socialists such as Dr. Addison doubtless desire to constitute experiments in relatively large-scale State farming, and hope for the extension of these experiments gradually over a much wider field. But no one in Great Britain proposes that the State should at any early point in the process of socialisation take the direct conduct of the greater part of agriculture into its hands. Land nationalisation is proposed in a form which would make all agricultural occupiers ultimately tenants of the State and would eliminate altogether the private landlord. But the continued cultivation of land by farmers is taken for granted, however much it may be desired to encourage the development of new types of farming units, such as large industrial farms on the one hand or co-operative small holdings on the other.

In these circumstances the two main problems of agricultural planning in the immediate future relate to the form of land ownership and to the organisation of marketing. It has been pointed out, not by Socialists alone but even by Conservatives, that the traditional English land system has ceased to function in the old

way. This traditional system was based on the existence of three parties—landlord, tenant farmer, and agricultural labourer. Of these the landlord was far more than the mere owner of the land drawing a rent. He was also the supplier of the larger part of the fixed capital of agriculture. But of late years the landlord has played a more and more passive part in agricultural affairs, and has largely ceased to provide the capital which is essential in increasing amounts for efficient farming. In these circumstances the farmer has needed to possess larger capital of his own, or in default of this has been compelled to borrow on a steadily increasing scale, or where he could not borrow has had to take from his working capital the sums required to replace the deficiency in the supply of fixed capital for farm buildings and improvements. Thus starved of working capital or compelled to borrow on an extensive scale, the farmer has found it more difficult to sell his produce on advantageous terms, and has had to face high interest charges which have become terribly onerous in face of the sharp fall of agricultural values in recent years. He is especially hard hit where he either bought his land or embarked on large capital improvements during the period of high prices; for he is now faced in such cases not only with a high rate of interest on the borrowed money, where he is unable to convert it to a lower rate, but, what is worse, with a capital burden which is quite out of relation to the current value of the land and the improvements which he has made. The recession of the landlord from the field of capital investment in the land and the growing difficulties of farmers over loan capital have compelled the State to step in, using the joint stock banks for the most part as its agents, with new schemes for the

provision of agricultural credit. But these schemes have done nothing to meet the difficulties of farmers already weighed down with heavy loan obligations, and but little even to provide new loans at less onerous rates.

In these circumstances there is a strong case for public acquisition of agricultural land, with a view to the fixing of fair rents and to the assumption by the State of the responsibility for the provision of fixed capital, in such a way as to release the farmers' own resources and borrowing powers for the provision of working capital. Nationalisation with these objects has been advocated not only by Socialists, but by leading Conservatives as well, though the preponderant mass of opinion outside the Socialist ranks remains hostile because it fears public land ownership as a step towards Socialism. There is, however, a further aspect of public ownership upon which Socialists have laid special stress. During the war, with the object of increasing the food supply, a system of agricultural control was instituted, operated through County Agricultural Committees which had sufficient powers to dispossess temporarily occupiers who failed to make effective use of their land and to insist on standards and forms of cultivation imposed in the public interest. This was done, under war conditions, without public ownership of the land, under emergency powers conferred upon the Government. But it could hardly be done in a permanent form, as Socialists at any rate wish to see it done, save on a basis of public ownership. The State as universal owner of agricultural land would be in a position, while giving full security of tenure at fair rents to occupiers who cultivated their land at reasonable standards of efficiency and in

compliance with the requirements of the agricultural section of an economic plan, to make the observance of these standards and conditions compulsory upon all occupiers who desired to retain their holdings. Without this power, which would have of course to be carefully safeguarded in the interests of the farmers, it would be practically impossible for the State to carry through the development of any comprehensible agricultural plan.

Another way of attacking the problem is from the marketing end : indeed these two ways of approach are essentially complementary. In default of a willingness to bring about public ownership of agricultural land, reliance has had to be placed in recent developments almost exclusively on the co-ordinated control of marketing, including as its corollary the control of agricultural imports. The present structure, which represents the first preliminary steps towards a planned system in agriculture, is embodied in the two Agricultural Marketing Acts of 1931 and 1933, and in the Orders and Regulations issued under them. The first of these Acts, the Addison Act of 1931, was intended by its sponsors only as a preliminary step to be followed up by further measures. Under it a majority of the producers of any agricultural commodity were enabled to coerce the minority into the adoption of a marketing scheme. For the adoption of any scheme a two-thirds majority of all registered producers was needed ; but, when this two-thirds majority had been secured and a scheme approved by the Ministry of Agriculture, the conditions laid down could be enforced upon all producers of the product in question. Under this Act only one scheme, that for hops, was actually brought into effect, but the Addison Act laid the foundations

for the structure which has since been built up under the auspices of Major Elliot.

The Agricultural Marketing Act of 1933 went very much farther than the Act of 1931, which has to be read in conjunction with it, for the two together constitute a single policy. The Act of 1933 added to the powers accorded in 1931 the power for the State to limit both the imports and the domestic production of any kind of agricultural produce, and to take steps for the development of home production wherever this was thought desirable. The Act was to be operated through marketing schemes for particular products, and the initiative in drawing up a marketing scheme was to rest either with the producers or with the Ministry of Agriculture. Usually the course adopted was for a Marketing Commission to be established by the Ministry of Agriculture, sometimes after preliminary proposals had been brought forward by the producers through the National Farmers' Union, and for this Commission to draw up a plan which then became the basis for acceptance or amendment, after public hearing of objections, by the Ministry of Agriculture. Under the Act of 1933 marketing schemes have already been brought into existence for milk, bacon, pigs and potatoes, and schemes are on the way for other kinds of agricultural produce, including cattle and eggs and poultry.

The schemes so far adopted show a considerable divergence of type within an underlying uniformity of idea. Thus the hops scheme, which was the first to be drawn up, conferred upon the Hops Marketing Board a complete monopoly of sales protected by a tariff of roughly 50 per cent *ad valorem*. The Hops Marketing Board has been able to secure so high a price for its

products as considerably to stimulate domestic cultivation; and it is now seeking powers to prevent this, not only by the complete exclusion of new producers, but also by the imposition of a rigid quota system on those already within the scheme. The other case in which a marketing scheme has been set up for an agricultural commodity which enjoys the protection of an import duty is that of potatoes. Here the method adopted has been that of limitation of output. But there is not, as in the case of hops, any provision for a monopoly of sales through the Marketing Board. What has been done is to limit the total production by restricting producers to a registered acreage under potatoes, based on the records of their previous cultivation, with a further provision for meeting variations in the harvest yield by excluding from the market potatoes below certain sizes. This exclusion is accomplished by varying the size of the riddle through which the potatoes are passed, so that more and more of the smaller potatoes are excluded in proportion to the bounty of the harvest. Increased production is combated both by the system of registered acreage and by imposing fines for additions to the acreage under potatoes.

In the case of both hops and potatoes the aim has been rather that of regulating supply round about the established level than of taking definite measures to increase production. In the case of pigs and bacon, on the other hand, the aim has been definitely to stimulate home output not only in order to meet a potential growth of demand but also to the extent of reducing dependence on imports. The schemes so far in force cover only bacon and ham and pigs destined for bacon and ham production, and do not extend to the pork

market, an attempt having been made to segregate these two spheres by laying down conditions as to the quality and weight of pigs which will be accepted for bacon purposes, in such a way as to specialise the process of breeding for the two separate markets. Pork and pigs destined for pork thus remain, for the present, outside the sphere of control. For bacon pigs the basis of the scheme is the purchase at certain standard prices of all pigs which registered producers contract ahead to deliver to the bacon-curing factories. The smaller producers can combine for the purpose of entering into advance contracts for delivery with the curers, while the larger producers make separate contracts of their own. The prices which the curers undertake to pay under the scheme differentiate between pigs of various qualities, and have also moved up and down in accordance with the prices of feeding stuffs, which are the main determinant of the costs of pig production for the bacon market.¹

Under this scheme there has been already a very large increase in pig production in Great Britain, from an average of under $5\frac{1}{2}$ million cwts. a year round about 1930 to well over 7 million cwts. in 1933, and a still larger amount in 1934. This increase was considerably greater than was expected when the contract prices were originally fixed under the marketing scheme, and the arrangements made to restrict imports in accordance with the anticipated growth of domestic production. The consequence was that the curers of bacon found themselves under an obligation to take delivery of an unexpectedly large number of bacon pigs and in

¹This basis of payment has now been modified in the interest of the curers; but the cost of feeding-stuffs is still the principal determinant of the contract price.

great difficulties over the payment of the contracted price. This situation had to be met by a loan from the Government to the Marketing Board, this loan being paid out to the curers in order to enable them to pay the producers the agreed prices, with the proviso that the amount lent should be covered by a levy on the prices paid in subsequent contract periods. At the same time a further cut of 16 per cent was made in bacon imports in view of the unexpectedly large increase in home production.

In normal circumstances the severe restriction on bacon imports would have imposed very great hardships on the countries which export large quantities of bacon to the British market, and especially on Denmark. But in fact there has been no hardship. In the first six months of 1932 bacon and ham imports amounted to just over 6.1 million cwts. and cost £15,800,000. In the corresponding period of 1933 imports fell to 5.2 million cwts., but the cost rose to £16,000,000. In the first six months of 1934 imports fell sharply to 4.3 millions cwts; but the total price again rose to £16,600,000. Thus the British consumers of bacon have been paying a larger total price for a greatly decreased quantity of imported bacon and ham. Some part of this increase in price has doubtless gone into the pockets of the middlemen through whose hands the imports pass, but the well organised Danish bacon industry has been able to secure the greater part of the benefit. Thus the bacon scheme, with its system of quotas combined with guaranteed prices, seems calculated to impose on the British consumers a burden considerably greater than the advantage derived from it by the British producers. In recent years the home production of pig meat has amounted to about

one-third of the total consumption. The proportion must now be nearer one-half; but even so the burden imposed on the consumer is obviously twice the advantage accruing to the home producer. The disadvantages of this system of import regulation are commented on more fully elsewhere in this book.¹

In the case of milk the problem was again essentially different. The British producer has a virtual monopoly of the liquid milk market, save for the competition of condensed and other tinned milks, which have been imported in considerable quantities in the past. But the British producers are in keen competition with foreign producers over the whole field of manufactured milk products, especially butter and cheese. In 1932-3 the proportion of the total butter consumed in Great Britain which was produced at home was only 9 per cent, and of cheese only 30 per cent. Thus the problem presented by the reorganisation of the British milk industry was largely that of securing an increased market for milk to be used in further manufacture, though there was also of course the problem, on social grounds, of increasing liquid milk consumption, especially by babies, school children, and nursing mothers. Under the conditions which existed before the introduction of the marketing scheme, milk for the liquid milk markets of the larger towns was supplied mainly by producers in certain restricted areas; and these obtained relatively high prices for their product, while producers in other areas, confined to the local supplying of the smaller centres with milk, had to find an outlet for their surplus product at relatively low prices in the market for milk destined for use in manufacture. There

¹ See Chapter X.

was the further problem of the large seasonal variation in the yield of milk, which is unaccompanied by any corresponding variation in the volume of demand for liquid consumption.

The milk marketing scheme as finally introduced differs substantially from the original draft drawn up by the Reorganisation Commission appointed in 1932. Under the original scheme it was proposed to set up not only a Milk Marketing Board representing registered producers, but also a central Dairymen's and Manufacturers' Board representing the two main groups of wholesale milk buyers. Further it was proposed that these two bodies should jointly appoint a Joint Milk Council, and that there should be, in addition, a Reorganisation Commission to undertake measures for the development of the milk industry as a whole. The National Farmers' Union took strong objection to these proposals. It favoured the creation of a Milk Marketing Board with compulsory powers, but was unwilling to agree to the constitution of any of the other bodies proposed. It objected that, whereas under the Marketing Acts the producers would be under a legal obligation to observe their contracts, no similar legal obligation would rest upon dairymen or manufacturers; and it also disliked the notion of a Reorganisation Commission undertaking from outside measures for the development of the industry. Finally the National Farmers' Union had its way. The Dairymen's and Manufacturers' Board, the Joint Milk Council, and the Reorganisation Commission were all dropped, and only the Milk Marketing Board brought into existence. The structure of the Milk Marketing Board was, however, modified by the inclusion of three impartial members, and provision was made for

arbitration in the event of the distributors objecting to the prices or conditions of sale imposed by the Board.

With these large amendments the scheme was introduced (and also a somewhat similar scheme for Scotland); and under it all milk produced by registered producers becomes the property of the Milk Marketing Board. The producers continue to enter into direct contracts for delivery with the buyers, but payment is made by the buyers not to the individual producers but to the Board, which has power to alter the terms of any contract. The Board thereafter imposes a levy on the higher prices obtained for milk destined for liquid consumption and uses the proceeds of this levy to make up the prices to the producers in the low-price areas who are mainly supplying the manufacturing market. This results in a considerable decrease in the prices obtained by the more favoured producers, with a corresponding stimulus to increased production in the low-price areas. The scheme as a whole seems likely to bring about in the long run a substantial increase in total production; and this is likely to react on the volume of imports of dairy produce and to produce proposals for restriction of imports on the same lines as the restrictions already imposed on imports of meat. There has, however, so far been no fall in butter or cheese imports. Indeed, the quantities of butter imported during the first six months of 1934 show a sharp rise over the corresponding periods of the two previous years. Whereas the British consumers are paying a larger total price for a greatly diminished quantity of imported bacon, in the case of butter they are paying a much smaller total price for an increased quantity of imports. In the first six months of 1932 4.2 million cwts. of butter cost £21,200,000; in the

corresponding period of 1934 5.4 million cwts. cost £17,900,000.

This brief sample survey of what has been done under the Marketing Acts of 1931 and 1933 is only meant to be illustrative of the different methods which are being pursued in respect of different products. Underlying these differences of method there is of course a unity of policy. In every case the aim is to establish for a particular product a national marketing scheme covering all producers, except perhaps those whose output is on an insignificant scale, and, under this scheme, to establish regulated scales of prices which can be so adjusted as to stimulate or contract production to any desired extent. At the same time, the marketing scheme enables the body responsible for its administration to influence the conditions of production as well as the price, to lay down standards of quality and grading, and to give the producers an inducement to raise their efficiency by offering higher prices and an assured market for approved qualities and varieties of output.

Obviously some marketing organisation of this sort is indispensable for any effective planning of agriculture as long as the actual production remains in the hands of a large number of separate farmers. But it is equally clear that no effective control over prices or conditions of production can be maintained without control over the volume or the conditions of sale of competing imports. The method adopted by Major Elliot of controlling imports has been mainly that of the quota, without any attempt to regulate the actual prices at which the quotaed imports are sold in the home market or to interfere with the organisation of the importers. This, as we have seen, creates an

extremely unsatisfactory situation, since it involves that any increases of price secured by the home producers are at once added on to the prices of the imports which are allowed to come in. The benefit then accrues, according to their respective pulls in bargaining, either to the importers or to the overseas producers, or of course may be shared between them in varying proportions. This highly expensive method—from the consumers' point of view—of stimulating home production and improving the prices secured by British farmers for their output seems clearly wrong. Indeed, the experience of the marketing schemes already in operation is sufficient to show that the method of the quota can be adopted without imposing unnecessary burdens on the consumers only if it is combined with the establishment of direct control over the purchase and sale of imports, by means of an Import Board able to buy in bulk from the overseas producers and ensure that any difference between the price fixed for the home output and the prices at which imports can be purchased shall be applied to reducing the prices paid by the final consumers for the entire supply. Quotas without Import Boards are a thoroughly bad policy. They penalise the consumer in the interests not of the domestic producer, but either of the overseas producer or of the middleman; and, save where the overseas producers are strongly organised, the advantage is far more likely to accrue to the middleman than to anyone else.

We may therefore regard the institution not only of marketing schemes but also of Import Boards controlling the imported supply as essential to any effective planning of British agriculture. But before the problem can be tackled with full effectiveness it will be necessary, as we have seen, to undertake reorganisation, not

only at the marketing end, but also by bringing under co-ordinated control the whole area of agricultural land and thus improving the supply of capital to the farmers and enabling them to raise their efficiency. For if British agriculture is to be stimulated without the British consumer being compelled to pay an uneconomic price for his food, it is obvious that the standards of agricultural efficiency must be greatly advanced. Marketing schemes may afford some stimulus by giving differential advantages to graded produce and improved qualities of output; but it is most unlikely that they can by themselves bring about the necessary improvement in the general standard of farming.

Of course the institution of Marketing Boards and Import Boards and the public ownership of agricultural land only provide the machinery through which an agricultural policy can be put into effect. They do not settle what this policy is to be. The structure of the Marketing Board can be used either to preserve the existing level of output of a particular agricultural commodity or to increase or decrease the output to any desired extent. How far it is desirable to use the structure which is now being brought gradually into existence under the Agricultural Marketing Acts for the purpose of bringing about a large increase in British food production we shall have to discuss in later chapters of this book. At this point we are concerned only with the machinery that is needed in order to give effect to any policy that it may be decided to adopt.

The position in agriculture differs radically from the position in the industries we have considered earlier in this chapter. In the case of the major industries any sort of planning obviously demands large-scale

reorganisation, and any plan which preserves the existing business units, or creates combines based upon their amalgamation within the limiting conditions of capitalist business, is bound to fail in securing the full use of the available productive resources, because there will be no escape under it from the inherently restrictive tendencies of capitalist industrialism. In agriculture, on the other hand, though the farmer is no less prepared to restrict output when he sees a chance of realising a greater profit by reducing his supply, this situation relatively seldom arises, on account both of the large number of independent producers and of the uncertainty of nature's response to any given output of effort by agriculturists. In certain cases, notably that of hops, the immediate effect of introducing a marketing scheme controlled by the producers has been strongly restrictive upon the entry of new competitors into the field; and this tendency will doubtless reproduce itself in some other marketing schemes. But on the whole the position in agriculture is that the producers will increase output rapidly in response to a price stimulus and be far less ready or able to contract it in face of a price recession. There is therefore less danger of schemes for the organisation of agriculture having a seriously restrictive effect; and in any case the impossibility of changing rapidly the basis of agricultural production or of socialising farming on any extensive scale causes the problem of agricultural planning to be essentially for the present one of making the best of the existing structure of production while experimenting—on the lines suggested by Dr. Addison, for example, in his proposal for large-scale State farms—in alternative methods of productive organisation.

CHAPTER VII

PRINCIPLES OF PLANNING—HOME PRODUCTION AND FOREIGN TRADE

A PLAN that is to meet the needs of to-day must be a Plan for unloosing productive energy, and not for restricting it. Rationalisation of industry is well enough, as far as it means the improvement of industrial technique, by lowering the human costs of production and thus making a greater output possible with a diminution of human effort. But the improvement of industrial technique has no other use or purpose than these two. It is worth while only to the extent to which it does either increase production or enlarge men's leisure.

But, it will be said, "rationalisation", as it is now applied, may not increase output over industry as a whole—for increases in some industries may be offset by deliberate reductions in others—but it does certainly diminish the quantity of labour used up in making things. So it does; but at the cost of unemployment, which is, as we have seen, a very different thing indeed from leisure. The time available for use as leisure is enlarged; but the leisure is not, because the spare time is accorded only under conditions which make its conversion into leisure an impossibility.

Moreover, the community is given no opportunity of choosing between more goods and services and more "saving" of labour. The choice is made for it, over its

head, by the irresponsible fiat of those who control the machinery of production and finance. If the community were able to choose, by some democratic method, I feel no doubt that its present choice would be for a considerably larger supply of goods than is being produced to-day rather than for any enlargement of leisure so great as to stand in the way of a considerable increase of output. But to the extent to which it did choose leisure rather than goods, it would demand real leisure—that is, spare time accompanied by a sufficiency of purchasing power to enable it to be enjoyed. To a considerable extent, the demand for goods and the demand for leisure go together. The more leisure we have, the more we shall need to consume in order to enjoy it. Men consume most when they are on holiday: they spend least when they are hardest at work. The hard-worked American business man's ineptitude at spending has long been a standing joke. The capitalists of the Industrial Revolution were "abstinent" chiefly because they worked too hard to be anything else.

There is nevertheless a point at which men have to choose between more goods and more leisure. Hitherto, this choice has usually been made by means of class conflict. The "leisure classes", to use Thorstein Veblen's convenient phrase, have tried to make the working classes work as hard as possible in order to increase the supply of goods and services that could be used to minister to the leisure of the property owners. The working classes, torn between their desire for more goods and their reaction against overwork, have tried to get at once higher wages and shorter working hours, and also to secure mitigations of the irksomeness of the labour process. This tussle has been varied only

when the property owners, or a section of them, have become so engrossed in the business of money-making as to cease to value their own leisure. But this has made them drive the poor even harder than before, as happened under stress of the Industrial Revolution.

Just as the price-system fails to measure anticipated satisfactions, because of the unequal value of money to rich and poor, so the demand for leisure is unequally weighted. A poor man, in order to earn an hour's leisure, has not only to forego earnings which represent for him a far greater potential satisfaction than for a richer man—even if the latter can earn far more in an hour—but is also threatened with inability to use as leisure the time he takes off from work because the consequent fall in his income renders the leisure ineffective. The demands of the poor for leisure therefore count for very little. The "leisure" accorded to them is to a great extent enforced and unusable. Moreover, a man who is employed in a regular job usually cannot take time off at will. He must work the regular hours, and perhaps some compulsory overtime as well.

A community deciding by democratic means between more goods and services and more leisure must, in order to arrive at its decisions, have a clear idea of how the goods and services and the leisure are to be distributed; for their worthwhileness depends on their distribution. More goods and services are of value chiefly if they go to those who most need them; and the value of more leisure depends on it being accorded to those who need it most together with the means of enjoying it. A "planned" social decision between more or less work and less or more leisure therefore implies either a "planned" distribution of incomes or

an acceptance of the existing distribution as satisfactory or inevitable. It is impossible to make a rational social decision about the relative worthwhileness of more work and more leisure except in relation to a particular distribution of incomes.

Clearly, the great enlargement of productive power which is the outcome of technical advance ought to make possible a parallel enlargement of both material wealth and leisure. We can leave aside for the time being the question of the proportions in which the advantage ought to be shared between these two objects, and concentrate on the admitted necessity for a greatly increased production of goods and services if extended opportunities for leisure are to be democratically enjoyed. It must accordingly be understood that in this chapter, whenever it is said that the *desideratum* is the fullest possible use of all the available productive resources, there is always the implied reservation that this use is desirable only up to the point at which the community begins to value additional leisure more than additional goods.

Subject to this reservation, it is clearly desirable to use productive resources to the full, and therefore to prevent all practices which result in available resources being left unused, or under-used. This involves the conclusion that a planned system which involves the widespread restriction of output by powerful sectional monopolies is necessarily wrong and anti-social. Yet in recent years most Governments, and most international bodies concerned with economic organisation, seem to have been devoting a large part of their energies to the promotion of precisely this type of sectional monopoly. The Agricultural Adjustment Act which forms an important part of President Roosevelt's

“New Deal” has been used largely to reduce the acreage under wheat and cotton in the United States and to limit other kinds of agricultural production. In Great Britain, Shipbuilders’ Security Ltd. has been buying up and destroying “redundant” shipyards; the Lancashire Cotton Corporation has been shutting down “redundant” mills: coal and steel firms have been buying up and destroying “redundant” pits and works: Imperial Chemical Industries has been closing down “redundant” factories which formed part of its combine of firms. The closing down of a factory produces, in the same issue of a newspaper, a lament from the journalist who writes about unemployment, and a paean of joy on the City page. Internationally, the producers of wheat, rubber, steel, and a host of other products meet in order to consider how exports and, if possible, production can be restricted; and these things pass for instalments of a world-wide “planned rationalisation” of the economic system.

There are, indeed, some moves in the opposite direction. Numerous Governments give subsidies or bounties on the production of sugar-beet, wheat, and other agricultural products, or build up high tariffs and drastic quota schemes in order to encourage domestic production of both foodstuffs and manufactures. But these measures are universally directed, not to the increase of consumption, but to the restriction of imports; and, as the increased home product has usually to be sold at a higher price, their general effect is to limit total consumption and not to increase it. They force more restriction of output on the exporting countries than they cause expansion of output at home. Accordingly, their total effect is also restrictive. Only in the case of shipping do subsidies

appear calculated to increase the aggregate supply available; but what is the use of providing more shipping space if there are less goods to carry? Such a policy is necessarily self-defeating. Moreover, the latest shipping subsidy, that in Great Britain, is based on requirements for the scrapping of "redundant" tonnage.

It is undeniable that, under conditions of world-wide under-employment of productive resources, a country which has previously imported much more than it has exported can, by adopting drastic measures for the restriction of imports, increase the amount of home employment. But it can hardly do this without also lowering its standard of life, if not below what it was when the policy was instituted, at any rate below what it could be if it both imported and exported more. The reduction of imports may not lead at once to a proportionate fall in exports, especially if imports were previously at an abnormally high level in relation to exports. But imports cannot be drastically curtailed without large reactions on exports; and it is too much to hope for that most of the goods previously imported and now shut out can be replaced by goods made under equally productive conditions at home, or that the goods now produced at home will be as satisfying to consumers, in relation to their costs of production, as the goods previously imported in exchange for exports. The goods previously exchanged were for the most part exchanged because it was worth while to exchange them—that is, because the relative suitabilities of countries are different for the production of different types of goods. There are doubtless cases in which the opportunity afforded to produce at home certain types of goods previously imported may lead

to the establishment of an industry or branch of agricultural production efficient enough thereafter to stand on its own legs; but these instances are bound to be somewhat exceptional. A widespread substitution of home-produced for imported commodities is certain to mean some increase in the human costs of production.

This would be still more evident if it were not for differences in the standard of living between one country and another. For the power of one country to place its products in the markets of another may depend not on its greater efficiency in producing the goods in question, but on its setting a lower valuation on certain of the factors of production—notably human labour. It will doubtless be argued that this could not happen in a perfectly competitive world, because the rewards accruing to the factors of production would be neatly proportioned to their respective “productivities”. But in the actual world matters do not work out so; and countries which value labour or any other factor of production at a low level in relation to its productivity can gain thereby the power to sell more goods in the markets of the countries which value the factors of production relatively high.

They could have no motive for doing this were it not for two things—the limited elasticity of rewards, which prevents the “higher-value” and “lower-value” countries from adjusting their respective valuations to a common level, and the international mobility of money as a factor of production. The shifting of labour from country to country in search of employment is subject to very narrow limitations, some unavoidable and others added by law. Existing capital resources can for the most part not be moved. But new investment normally has international mobility in a very high

degree, so that countries which value labour low in relation to its efficiency attract money capital, and get full employment at the expense of unemployment in the countries which value the less mobile factors of production at a higher rate. These latter countries thereupon retaliate by protective measures, which seem worth while even if they raise the cost of goods to the consumers because they enable some unemployed resources to be brought back into use.

The position is further complicated by three factors—the uncertainty of agricultural production, the possibilities of monetary manipulation, and the economies of increased output. The inevitable uncertainty of nature's response to a given expenditure of effort in agriculture makes the surpluses available for export from the countries which specialise in agricultural production widely variable, and causes large fluctuations in the prices at which they are sold. This variation of prices, added to the uncertainty of the quantitative return from nature, falls very heavily on the agriculturists in the importing countries and leads to demands for the restriction and regulation of imports in order to secure a profitable market for the domestic supply. But, when once such a policy is introduced, it is easily pushed beyond the point at which it simply secures the home producer against temporary falls in prices below the long-term average to a point at which it encourages increased home agricultural production at a cost which involves higher average prices to the domestic consumer. This matter is of so much importance in relation to present-day agricultural policies that, at the risk of being thought prolix, I must try to make it quite clear.

Suppose, over a period of years, the price of wheat remains steady at 50s. a quarter, for wheat of a certain quality. It will then pay farmers to endeavour to grow the maximum quantity of wheat which they can produce to sell remuneratively at this price, unless they can find some still more remunerative use for their resources. Suppose, further, that no more remunerative use for their resources can be found. It will then pay them to grow the full quantity; and, assuming a system based on private ownership of the means of production, it will pay the community that they shall do so, for if they do not, productive resources will either be left unused or be used in a less remunerative way. But now suppose that prices average 50s. over the same period of years, but fluctuate widely from moment to moment within that period. It will probably still pay the community that the same, or nearly the same, quantity of wheat shall be grown; but it will no longer necessarily pay the farmer to grow it. The community may indeed, by concentrating its purchases of wheat both at home and abroad to some extent on cheap periods and reducing its buying in dear periods, be able to buy on the average at less than the average price. This may indicate the growing of a rather smaller quantity at home as the optimum, from the standpoint of buying in the cheapest market. But the home farmer will be likely to suffer in proportion as the community is able to do this: nor will he be able to choose his time, selling when wheat is dear and holding off the market when it is cheap. It will therefore not pay him to incur the risks of growing so much as he would grow if prices, without change of average level, ceased to fluctuate.

It may therefore pay the community to offer the

home farmer a sufficient inducement to persuade him to grow wheat up to the amount which he would grow if the price remained steady round the average, or at all events nearly as much; and this may economically justify measures designed to protect the farmer against the effects of fluctuations in the world price. This was the ostensible object of the Wheat Act in Great Britain, with its levy on each sack of imported wheat or flour in order to provide a bonus to the home producer.

But can it pay the community to stimulate the home cultivation of wheat beyond this point? It could not, if the alternative to the growing of more wheat were the use of the released productive resources in producing something else for sale at a remunerative price. But it may, if the alternative is the leaving of these resources unused. For though it may be impossible to produce the additional wheat without some sort of subsidy—whether this is to be paid by the consumers as such or by the State—the cost of the subsidy may be less than the economic loss to the community as a whole that will result from leaving the resources in question unemployed.

If, however, on this calculation of relative costs, the community does decide to stimulate the production of more wheat by means of a subsidy, it must be realised that this policy, though it may result in increased use of productive resources at home, is bound to cause disemployment of some of the resources that would otherwise have been applied to wheat production abroad. It is therefore likely to cause the wheat-exporting countries, as far as they can, to apply similar restrictions to their imports of manufactured goods, in order to broaden, even at increased cost to

their consumers, the employing capacity of their home industries. The outcome will be a diminution in the amount of foreign trade, and the production in both countries of goods which they could have acquired by exchange on more advantageous terms. A policy of this sort may be forced on a State by the action of its neighbours: but if it is generally adopted it obviously defeats its own ends. Curtailment of imports is balanced by loss of exports, in the long run if not at once; and the world as a whole is definitely worse off than it could be under conditions of freer exchange.

A particular country which has been suffering abnormally from unemployment of productive resources may, however, escape this loss, by pushing it back on to other countries; and each country is apt to hope that it will be able to do this. The more one country attempts this policy, the more others are compelled to resort to it, whether they cherish the same hope or not. For a country which does not become the dumping ground for the surpluses of all the rest; and the gain which it reaps from cheap imports is far more than offset by its losses from unemployment.

The moral is that countries ought to aim at creating internationally conditions which will limit special assistance to home agriculture to what is required to protect their home producers against the effects of *price-fluctuations*, without resorting to policies which involve a rise in *average prices* in their domestic markets. But such an international understanding is not practicable as long as the alternative to using more resources in producing wheat is not their use in making something else, but their disuse. It would be practicable only between countries following a planned

system for the full employment of all their resources in one or another kind of production.

The second force which complicates our conclusions about the "international division of labour" is the possibility of monetary manipulation. For, in the short run, one country can undoubtedly capture trade off another by artificially depreciating the external value of its money. This lowers the effective prices which it demands from its foreign customers, without immediately raising internal costs and prices to the extent of the external depreciation. For many elements in costs are "sticky". Wages do not rise in proportion to the depreciation, and all existing long-term debts and other contractual payments remain fixed in money-amount. Accordingly the exporters can afford to sell cheaper in foreign currency, and still make a satisfactory profit in their own money.

It is true that this effect of currency depreciation wears off "in the long run", as domestic costs are gradually readjusted to the changed external value of money. But the "long run" may be very long, and the readjustment may not be completed at all if it is possible to scale down permanently to a lower level the real remuneration of any factor of production, such as labour. In any case, the effects may last long enough permanently to alter the economic structure of the community in which they are felt, and this alteration of structure may itself react on the distribution of incomes. But this effect of currency depreciation may be largely offset if the countries which find themselves receiving the depreciated exports of the country in question proceed to protect their home markets by high tariffs and quotas designed to keep out "dumped" imports.

The third qualification arises out of the economies of large-scale production. As we have seen, it may be possible to produce an additional supply of a mass-produced commodity at an additional cost which is very much less than the average cost of the entire supply. It may therefore pay the producers, if they can sell the additional supply without affecting the price charged for the supply already being sold, to market it at a price considerably below the average cost of production, but in excess of the "marginal", that is of the additional, cost. This is the economic basis of "export dumping", as distinct from "exchange dumping" based on a depreciated currency.

A country, in considering what policy to adopt towards imports from abroad, has to decide what attitude to take up to these two forms of "dumping", as well as to competition based on higher industrial efficiency or on a lower valuation of certain of the factors of production. "Dumping" obviously confers a distinct advantage on the consumers of the "dumped" products, including those finishing trades which buy "dumped" raw or semi-manufactured materials at cut prices. The question is how far this advantage is cancelled by the disemployment of home productive resources to which it may give rise.

The ostensible object of protective policies is usually to secure the fuller employment of productive resources. It is argued that, if such and such imports are shut out by tariffs or quotas, they will be replaced by goods made at home. To a large extent this substitution does actually take place, with some reduction in total consumption except for the most inelastic types of demand, and with some diversion of demand from the goods whose prices are raised to goods of other types.

If this were all, the use of home productive resources would clearly be increased, though not to the full amount of the exclusions. But there is also the indirect effect on the exporting trades. This is most obvious when protection is given against semi-manufactured imports destined for re-export in finished form. But it is also considerable over a much wider field, because decreased imports mean decreased external purchasing power for the countries from which the imports were derived, and therefore lessen their ability to buy. It is not contended that a decrease in imports is bound to cause a proportionate fall in exports; for there is no such precise correspondence. But as, in the main, imports have to be paid for by exports, and exports by imports, even if the character of the transaction is masked by a number of intermediate sales, the correspondence is bound in the long run to be fairly close.

Accordingly, the adoption of a protective policy by a country, or of a policy of higher protection, is bound to involve changes in industrial structure which cannot be confined to the expansion of the industries receiving the protection. There are bound to be contractions in other industries previously dependent on exports sent in payment for the imports which are now no longer required. An endeavour may be made, by special trade bargains, to secure the position of the export trades—for example, by insisting that countries from which considerable imports are still received in the protected country shall accept in exchange special quotas of its exports. But obviously such bargains can cover only a part of the field, and their scope must be restricted by the diminished willingness to receive imports.

In general, there are only three conditions on which the adoption of a protectionist policy is likely to be followed by an increase in the total use made of the productive resources of the protected country. The first of these is where the situation which existed before the adoption of protection was itself abnormal, so that an exceptionally large quantity of competitive imports was being received. This was the position of Great Britain in 1931, when the rapid increase of protectionism abroad and the intensity of the world slump had combined to make foreign manufacturers and agriculturists eager to "dump" as many as possible of their "surplus" goods in the free British market.

The second condition arises where the effect of protection is actually to enable the protected goods to be produced at lower cost at home than they were previously being bought at abroad. This case is rare; but owing to the large economies possible with increase of output, it cannot be ruled out as non-existent. It may arise also in the case of "infant industries", which, given a period of protection, may be able to establish themselves on an economic basis, whereas without this initial advantage they could not meet the competition of well-established foreign producers. But, though such cases exist, there are grave dangers in acting on them under capitalist conditions. For protection, so far from spurring the home producers to efficiency, may easily have the opposite effect; and even if protection is accorded only on a temporary footing, it is notoriously difficult to take it away, in face of the threats of wholesale dismissals with which manufacturers almost invariably greet the news of its impending removal.

The third condition is by far the most important. It is that the adoption of a protective policy shall be accompanied by other measures which will ensure the fuller utilisation of the available resources of production. In this case, the protection is not the *cause* of the increase, but it may be an indispensable part of the policy designed to bring it about. Suppose the community decides to adopt a system of planned production, based on the fullest possible use of all the available resources. It will then be impossible for it to allow this plan to be upset by unpredictable incursions into its market by foreign producers. Its aim will be not, like that of other protectionist countries, to reduce imports to the lowest practicable limit. On the contrary, it will want to import as much as its exports and other means of payment abroad will allow it to purchase; and it will be free to do this without any fear that these imports will dislocate its home market. But it will insist on "planning" its imports as well as its home production—that is, on buying what it wants to buy as a community in order to supplement and complement the output of home industry and agriculture—and will not be prepared to allow its imports to be governed by a series of unregulated bargains between foreign exporters and individual home importers guided solely by considerations of private profit, and regardless of the effects of their purchases on industry as a whole.

A community setting to work in this way will plan its home production and its imports together. Broadly, it will aim at buying from abroad all those things which it can buy more cheaply than it can expect to produce them at home, up to a total determined by its ability to pay for them with exports or by other means, such

as interest on foreign investments or other "invisible exports". To the extent to which it proposes to be a lender of capital to other countries, its current ability to buy imports will be decreased: to the extent to which it proposes to borrow foreign capital, this ability will be greater.

It will not, of course, be possible to predict exactly this ability to pay; for, especially in dealing with "unplanned" foreign economies, the readiness of foreign countries to receive exports, and the prices at which they can be sold, will not be exactly foreseeable. To this extent the planning of imports will have to be open to adjustment. But the more transactions can be made with foreign countries on a basis of planned exchange of goods for goods—that is, international barter—the less will this uncertainty be. Accordingly, our planned economy will certainly aim at arranging as much as it can of its foreign trade on this reciprocal basis, including transactions involving a third party. For example, in addition to exchanging British capital goods for Russian timber and oil, it would be possible to arrange for purchases of American cotton against exports of tin or rubber from Malaya, which would receive in exchange British exported manufactures.

This planned regulation of foreign trade differs from all ordinary protectionist policies in not being restrictive in its aims. Its object is not to keep out foreign goods in order to provide more employment at home, but so to regulate the *character* of imports as to make possible a comprehensive planning of home production. It can afford to aim at maximum imports, within its ability to pay, because it is under no fear that the effect of these imports will be to throw home productive resources out of use.

The planning of home production of course involves the planning of exports, which form part of it. This is an additional reason for the planned economy to make every possible effort to regulate its foreign trade on a basis of reciprocal exchange, so as to reduce to the minimum the uncertainty about the demand for its exports. A planning of production involves the anticipation of foreign as well as home demand; and in this highly competitive field the likelihood of error is obviously greatest, in the absence of planned arrangements for mutual exchange.

To this question of the planning of foreign trade it will be necessary to come back at a later stage. My point here is that the adoption of a regulative policy over imports is most likely to form a necessary part of any domestic plan for the fuller utilisation of productive resources. But regulation of this sort must be sharply distinguished from ordinary protective policies. It would certainly never be applied by the use of the exceedingly uncertain weapon of the tariff. It might use the quota, or something like it, as part of its policy of reciprocal exchange. But in the main it would be operated through a system of bulk sales and purchases, especially to and from other countries working on a planned economic basis. Its natural technique is the Trading Board or Commission, of which more will be said later in this book.

At present, the regulation of foreign trade is carried on, over all the world, on mainly restrictive lines. This leads to a widespread outcry against the evils of exaggerated protectionism and "Economic Nationalism", and to a demand for a return to free, or at least freer, trade. But the restrictive measures now in force are largely the outcome of a reaction

against the conditions which arose when trade was more free; and there is neither any likelihood of persuading most countries to go back to the systems they have discarded, nor any assurance that, if they did, there would not be a recurrence of the same evils. Nothing too bad can be said about the evils of Economic Nationalism as it now exists, with its stupid attempts to promote the home production of the most unsuitable types of goods, and its invincible belief that nations can grow richer by cutting off one another's purchasing power. It is lunacy, fully as much as if mankind were to abandon steamships, railways and motor-cars, and go back to sailing and horse-cartage, and still expect to be able to transport as much as before. But the way of escape from this lunacy is not a reversion to the planless economy of free trade, but a march forward to a planned system of international exchange.

In such planning, the first assumption will be that all usable resources are to be employed. Then arises the question, On what are they to be employed? This involves a distinction, already made in an earlier chapter, between transferable and non-transferable resources. The first step in the making of the plan will be to schedule all the available resources, with indication of the degree to which they are capable of being used for the making of alternative products, or are to be regarded as non-transferable, or transferable only at considerable cost or loss. Let us take, as an example, the schedule of the available factories, setting aside for the moment the parallel problem of transferable and non-transferable labour. Existing factories will evidently be for the most part either non-transferable, or transferable only within a narrow range of products,

or at considerable cost. Let us regard them, in the first instance, as non-transferable.

The first question will then be, Does the productive capacity of these factories exceed the total probable minimum home demand for their products? If it does not, a second question at once arises. Does the use of any of these factories involve producing the goods in question at higher cost than they could be bought at abroad? If not, there is no doubt about all the factories being worth using, if there is enough suitable labour to man them, and sufficient raw materials can be provided to keep them at work. If, however, the use of some factories involves higher costs than those of importing equivalent products, the factories falling under this handicap should be assigned to a distinct group, and the question of their use or non-use reserved for later consideration.

The position will be somewhat different in those industries in which the available productive power does clearly exceed the capacity of the home market, *e.g.* the cotton industry in Great Britain or Japan. Here the question must be asked at once, which of these factories can produce at costs which will enable them to sell their products remuneratively in foreign markets? It can be decided at once to use these factories to the full. The same applies to any further factories which can produce goods for home consumption, within the minimum of home demand, cheaper than they can be purchased from abroad. There will remain factories whose power to satisfy either or both of these conditions is doubtful, and others which definitely cannot meet either. The question of use or non-use in these cases must also be reserved for consideration at a subsequent stage.

The necessary supplies of labour and other factors of production must now be allocated to the factories which it has been definitely decided to use. But there will remain a supply of doubtful factories and of unallocated other factors of production. The next question to ask about the doubtful factories is whether the cost of using them is likely to be greater or less than the cost of replacing them with new factories designed to produce the same types of product. Such estimates must of course include the capital costs of building the new factories, spread over a suitable period of years. Where it will clearly lower costs, even after allowing for the new capital expenditure, to replace the old factories by new ones, the old factories thus condemned can be provisionally excluded from the schedule of available resources, and regarded as worn out, and possessing only a "scrap" value. But any factory which is better worth using than a new one which would have to be built specially will be retained on the schedule.

The next problem is to estimate demand. This is a complicated problem, depending on a number of distinct but related factors. Home demand is clearly not an absolute quantity, but a composite demand for related quantities of different things. If, at the existing standard of living, the demand is for x pairs of boots, y tons of coal, z motor-cars, and so on, a rise of 10 per cent in the standard will cause a change in all these quantities, but by no means the same change in each case. The demand for some things will expand, with increased purchasing power, much more rapidly than the demand for others. There will even be some cases in which the demand will fall as the level of purchasing power rises, because consumers will be

able to shift over from cheaper to dearer but more desirable goods.

Moreover, the series of total demands will be made up partly of demands for goods that can be produced at home at less cost than they can be imported, partly of demands for goods that can be produced at home, but only at costs exceeding the costs of importation, and partly of demands for goods that cannot be produced at home at all. Our "planners" will presumably begin by taking the existing standard of living as a starting-point, and assigning to its maintenance all productive resources, up to the quantity required, that can be applied to this purpose at costs less than those of importation. They will then consider the demand for goods, including raw materials, that cannot be produced at home at all, and will assign to the satisfaction of this demand, after making allowance for the purchasing value of any available "invisible" exports, such factories and other factors of production as are capable of producing goods for export at costs which will enable them to be sold remuneratively in the world market.

Two possibilities now arise. Either the "invisible" *plus* the "visible" exports thus provided for will not suffice to pay for the required imports of goods that cannot be produced at home (*plus* necessary "invisible" imports), or they will more than suffice. In the first case, it will be necessary for the community either to decide to reduce its consumption of things which cannot be produced at home, and to seek substitutes for them, or to assign to producing exports certain factories whose products will have to be sold for less than their cost of production. If a community wishes to consume more imported goods than it can pay for

with "remunerative" exports, including the "invisible" items on both sides, it will have to subsidise exports. This will, in effect, raise the cost of the imports which the subsidised exports are used to buy, and the cost of the subsidy can be met by charging more for these imports. This, in turn, will have some effect in reducing consumption of them, and causing substitution of home products.

There will, however, commonly be a surplus available from exports after meeting the cost of imports which cannot, under any conditions, be produced at home. This surplus will be available for buying imports which could be produced at home, but only at very high costs. Thus, the use of a certain quantity of available factories at home will be ruled out, because it will clearly pay better to import the goods which they could make only at much higher cost.

The decision to use productive resources wherever they can either produce goods needed in order to maintain the existing standard of living at costs below those of importation, or produce goods which can be sold abroad at more than their cost will already have involved decisions to undertake new capital construction, whenever this offers the prospect of lower costs than can be secured by using the factories already in existence. This will mean setting aside the productive resources which this new capital construction will require, including the provision of exports to meet the cost of any machines or other capital goods which it seems most economical to import. The "plan" will therefore show, at this stage, the beginnings of an allocation for replacement and development of capital goods, as well as for the production of consumers' goods.

It is possible that the decisions already taken will have made full provision for the satisfaction of the consumers' needs, at the existing standard of life. But it is also possible that some of these needs will remain to be met. They will have to be met either by deciding to produce certain goods at home, despite the fact that they could be bought more cheaply abroad, or by deciding to subsidise more exports in order to buy the required goods abroad, or of course by a combination of both methods. Which method will be adopted in respect of any particular product will depend on relative cost. If the margin between costs and export prices is greater than the margin between costs and import prices it will pay best to produce at home. If the balance is the other way it will pay best to produce for export, and thus get the means of paying for the importation of the goods required.

It has, of course, to be borne in mind that the relative costs of producing and importing, and of exporting and importing, are affected by the external value of the currency of the community in question. For the purpose of this argument I have assumed unchanging rates of exchange; but it is necessary to draw attention to the very different influence of the exchange factor in an "unplanned" and in a "planned" economy. In an "unplanned" economy depreciation of the external value of the currency is equivalent to a subsidy to exports and a deterrent tax on imports, at any rate until there has been time for all internal costs and prices to be adjusted to the new value of money. Currency depreciation will therefore increase exports and lessen imports. But in a planned economy the subsidising of exports will be designed only to enable more imports to be bought. Currency manipulation

will be an obviously inappropriate method of achieving this; for it spreads the "subsidy" over all exports, whereas the planned economy will want only to subsidise those particular exports which it has decided, on considerations of relative cost, to expand. Moreover, currency depreciation makes all imports dearer, whereas the planned economy will desire to concentrate the cost of the subsidy on those imports for which substitution of home products can most easily take place, and will, moreover, desire to keep the fall in imports generally down to planned limits—even if there is to be any fall at all in the *total*—and not to make it as large as possible. We can therefore rule out exchange depreciation as a deliberate instrument of a planned economy for regulating the relative magnitude of imports and exports, though we cannot, of course, rule out currency fluctuations arising from other causes, or originating in the policies of other countries.

Let us assume that our planned economy has now, by a combination of the methods so far described, made provision for the current satisfaction of all the consumers' demands, at the current standard of living. We can further assume that there remains over a substantial surplus of unallocated productive resources. Again let us confine ourselves for the moment to existing factories. There remain over (a) certain factories capable of producing additional supplies of consumers' goods, either for home consumption or for export, at costs in excess of those of the factories already allocated to these types of production; (b) certain factories capable of making capital goods, over and above those already allocated to producing such goods either for export, or for building new factories already settled on,

or for meeting the current needs for replacements of the factories which it has been decided to use.

The next problem for our community is to decide how much of its remaining resources to devote to raising the current standard of living, by producing more consumers' goods, and how much to expanding its productive capacity with a view to increased output of consumers' goods in the future. I know of no infallibly "right" principle on which this choice can be made, any more than there is an infallibly "right" principle for an individual to act on in dividing his income between saving and consumption. It is a matter of choice, about which it is possible to choose wisely or foolishly, but quite impossible to say that any quantitative choice is absolutely "right". It would be clearly foolish for a community to make no provision for expanding its future productive power, and still more so for it to fail to provide adequately against obsolescence, as well as physical wear and tear, of its existing resources. It would be hardly less foolish for it to refuse altogether to expand its standard of living, persistently transferring to posterity all the benefits of expanding productive power—even apart from the fact that this policy is impossible, because sooner or later expanding productive power must either create more consumers' goods, or destroy itself by making existing capital resources obsolete as fast as it creates new ones. But between these extremes of folly there is a wide range of choice, and no criterion of absolute "rightness" can be laid down. The discovery of the "golden mean" is not a problem that admits of unquestionable quantitative solution.

In making this choice, our planning authority will be faced, broadly, with the alternatives of using a

number of rather inferior existing factories or of building a number of new ones. It will be guided to a great extent by the suitability of the existing factories for producing goods of which the consumers will want more as their incomes expand. The building of new factories will be concentrated most of all on those types of factory of which there are either not enough to satisfy any projected expansion of demand, or, if there are, the cost of using them is definitely higher than the cost of replacing them with new factories. The more the structure of demand is changing, the more new factories will tend to be required. But the structure of demand can change for any or all of a number of causes. It can change because people, apart from any change in their incomes or in relative or absolute prices, come to want different things. It can change because the relative prices of different things change. It can change because the same total purchasing power is differently distributed among consumers. Or it can change because the total purchasing power available is increased or decreased.

Let us assume, for the present, that the prices at which goods are sold in our planned economy depend on their costs of production. The demand for any given commodity will be subject to all the factors of change which have just been set out. The planning authority will have to make an estimate of the probable movements of demand resulting from, say, a 10 per cent expansion in total incomes, as modified by any changes in their distribution. Let us suppose that its remaining supply of productive resources is sufficient, if all the resources are allotted to the building of new factories, to meet this additional demand in three years' time. On the other hand, if only half the remain-

ing resources are allotted to new capital construction, the process will take six years, but in the meantime it will be possible to expand the standard of living at the rate of 1 per cent per annum for the first three years, and 2 per cent for the next two, rising to 3 per cent in the sixth year. Our community can then choose between no increase in its standard of living for some time, followed by a rapid advance, and a more gradual progression, based on the use for a further period of already obsolescent factors of production. Let us suppose that it chooses the latter alternative.

There is, the more to be said in favour of this choice, because it will ease the problem of finding a use for the less easily transferable factors, apart from factories, that remain available, and especially for the less easily transferable kinds of labour. But it will be a desirable policy only to the extent to which the "sub-marginal" factories which it is decided to retain in use are fitted to supply types of goods which will in fact be demanded as the consumers' incomes are expanded at the planned annual rate, or alternatively to make goods which can be sold abroad so as to import the required goods more cheaply than they can be produced at home. When the sub-marginal factories which remain available do not satisfy one or other of these conditions, they are not worth using; and more of the available margin of resources must be assigned to building new factories that can meet real demands.

I am leaving out of consideration at this point the power which the planning authority will undoubtedly have of modifying demand so as to make it fit in more nearly with the available specialised resources of production. The planning authority can do this either by altering the distribution of incomes or by adjusting

relative prices, as well as by the selective "pushing" of particular products. But the distribution of incomes is a matter which logically comes before the planning of production, which can indeed be done only with a given distribution of incomes at least approximately in view; while the adjustment of prices, in such a way as to divorce them from costs of production, will presumably occur either when the community desires, for social reasons, to increase or decrease the consumption of some particular kind of services—in which case it will also be logically prior to the drawing up of the plan of production—or as a means of correcting the effects of errors in the anticipation of demand by the planning authorities. If the planning authorities have overestimated or underestimated the demand for a particular commodity, it will be possible to adjust supply and demand by lowering or raising the price, as an alternative, in the latter case, to some form of rationing, which might be preferred in the case of necessary goods or services. But for the most part it seems best to assume that the planning authority will aim at selling goods and services at prices corresponding to their costs of production.¹

In this sketch of the working of a system of planned production we have so far concentrated our attention mainly on one factor of production alone—capital instruments—for what has been said of factories obviously applies also to mines and every sort of industrial plant. It applies in large measure to land also, with only the difference that additional land cannot be produced at will, in the same way as new factories, though existing land can be improved, e.g.

¹We shall consider later whether prices ought to be fixed on a basis of marginal or average costs. See page 242.

by drainage, or better water supply, or access to superior transport facilities. But land is far more transferable from one use to another than industrial plant; and the planned decision about the land is therefore in far more cases not a decision to use or not use a particular area of land, but a decision to use it for one type of production rather than another. The agricultural plan involves decisions about the quantity of land to be used as arable or as pasture, the acreage to be put under wheat, oats, barley, root-crops, and so on, the relative attention to be paid to arable cultivation of primary crops and to the growing of fruit and vegetables, or to the raising of cattle, sheep, pigs and poultry, the relative importance of wool and mutton in selecting the breeds of sheep, and of bacon and pork in pig-breeding, the degree of intensiveness to be aimed at in the various forms of agriculture, as affecting the demand for labour and capital on the land, and so on. A country which exports agricultural produce has to decide how far it is desirable to push agricultural production for export, as against developing domestic industries of its own—a decision which, in view of the economies of mass-production, should depend largely on the size of the home population, but is also bound to be affected by the policies of other countries in increasing their agricultural production, and so decreasing their demand for agricultural imports. It is usually out of the question for a sparsely populated country to develop a wide range of industries catering for its home market without incurring very high costs of production. But if countries with high agricultural costs insist on developing their agricultural output, and so reducing their demand for imports, the mainly agricultural countries are obviously compelled in

self-defence to turn to increasing their home production of manufactured goods.

On the other hand, a country which has depended on agricultural imports has to decide, if it adopts a planned economy, how far it is desirable to increase its agricultural output in order to secure a fuller use of its available productive resources. The criteria in this case are the same as for factory production. It is obviously desirable to produce at home—if no still more advantageous employment can be found for all the available resources—as much as can be so produced at less cost than that at which it can be imported. Whether it is desirable to produce more than this—and how much more—depends on the relative advantages of using the available resources, as far as they are transferable, in agriculture or elsewhere, and, as far as they are non-transferable, on the relative advantages of leaving them unused in order to use elsewhere the transferable resources which would otherwise be employed in conjunction with them, and of using them in conjunction with these other resources.

For always a decision to use a particular factory, or a piece of land, involves a decision to employ in conjunction with it those other productive resources without which it cannot be effectively used. I began with factories, because factories are the least transferable kind of productive resources. Labour is in most cases, though not in all, far more easily transferable from one use to another. For, even if the individual worker cannot be transferred without sacrificing his skill, a considerable transference of labour can be effected merely by directing the new entrants into industry into expanding and away from contracting occupations. It is, indeed, hardly ever possible to stop

all recruitment of juveniles into an industry, even if the demand for its products is in rapid decline, because some provision must be made for training new skilled workers, even in greatly reduced numbers, if the industry is to be efficiently carried on at all. Moreover, where an industry is highly localised, it may be very difficult to find alternative openings for the children of those already working in it—as in the coal mines or the Lancashire cotton industry. But, despite these difficulties, a great deal can be done to accomplish transference by securing an appropriate flow of juvenile labour into the various occupations. The real obstacle to transference to-day is not the lack of adaptability on the part of the labourers, but the absence of alternative jobs to which they can be transferred.

Apart from this, much labour is transferable over a fairly wide range of occupations without serious sacrifice of skill. Machine dexterity, as distinct from higher craft skill, is largely the same in many different occupations, or can be quickly acquired in a new form. With the growth of mass-production, which reduces the proportionate demand for the higher forms of craftsmanship, the transferability of labour increases. The difficulties of transfer to-day are far more geographical than occupational. They would become much less if industry were so planned that its geographical location could be guided, as well as the distribution of activity between one industry and another.

The structure of production is therefore in fact a good deal more adaptable than a survey of factory resources would make it appear. But rapid adaptation is of course bound to involve cost. Adaptation of structure can proceed without cost only if its pace does not exceed that of the wearing out of capital

equipment. Such equipment, as it wears out, can be replaced either by fresh equipment designed to produce goods of the same kind, or by any other type of equipment rendered more desirable by changes in demand. But if demand changes in character more rapidly than plant wears out, transference must involve writing off the unexpired value of the disused plant.

The rate at which plant wears out must be construed as including not only physical wear and tear, but also obsolescence due to technical invention, whenever it makes the further use of older plant definitely uneconomic. It does not, however, include obsolescence due to changes in demand, except to the extent to which the anticipation of such changes affects the durability of the plant which it is worth while to instal. It is beyond doubt that both the growing rapidity of technical changes in the methods of production and the increasing uncertainty about the lastingness of demand for many types of cheap luxury products tend to cause less durable plant and factory buildings to be used. These conditions increase the adaptability of the structure of production, by decreasing the capital losses involved in speeding up the pace of transference.

The production plan as a whole, having the object of securing the largest possible use of all productive resources, must obviously aim at using all the transferable resources and, in conjunction with them, as many as possible of the resources which cannot be transferred. It will not leave any factory, even the most inefficient, unused, if that involves leaving the labour which could be employed in it idle. But the inefficiency of a particular factory will be a strong reason for either employing resources to build a new one to replace it, or transferring the labour previously employed in it to some superior

use. If, however, the labour in question is very difficult to transfer, that may be a powerful reason for keeping even a very inefficient factory in use, if there is some demand for its products, when it is held to be not worth while to replace it by a new factory of the same sort. It may be worth while to go on working for some time a coal mine at which costs are abnormally high, if the only alternative really is to render a mining village derelict, and no alternative and superior use can be found for the workers whom its closing down would displace. But, in a planned economy, cases of this sort would be temporary, and might be expected to be very exceptional after the initial period during which the plan was being got into working order.

This chapter has aimed at no more than laying down the very broad principles on which a planned development of production would need to be based. It has ignored a host of complications, and employed general concepts upon which the draftsmen of any actual plan would need to refine at a thousand points. In subsequent chapters, some attempt at greater precision will be made upon certain points, though by no means upon all; for this book aims at being illustrative rather than exhaustive, and I can see no purpose in attempting to draw up any detailed plan when I am necessarily without most of the data upon which an actual system of planning would have to depend. I am not making a plan, but only discussing how, if we ever decide to make one, we shall have to set about the task.

CHAPTER VIII

CAPITALIST RESTRICTION AND STATE CONTROL— PLANNED MONEY UNDER CAPITALISM

AN essential object of every capitalist *entrepreneur* is to anticipate rightly the demand for the products which he has to sell—that is, the price at which he will be able to sell a given quantity, or the quantity he will be able to sell at a given price. At various prices, different quantities can be sold: the *entrepreneur's* object is to anticipate correctly what economists call the demand curve for the product in question.

But under competitive conditions, no single *entrepreneur* can, even by the most correct anticipation of demand, assure himself of satisfactory selling conditions. For he does not know what anticipations other *entrepreneurs* will make, or how they will act in the light of them. Even if he could know—as he cannot—the exact total demand at a given price, he cannot be sure that anything he can do will cause this to be the ruling price, for the actions of his competitors may cause the total supply offered for sale to exceed, or to fall below, what is for him the *optimum* quantity. Unless he is in the exceptional position of producing a large fraction of the total supply, no action of his in determining his output will have any appreciable effect on prices, which will be fixed by the relation between consumers' demand and the total actions of all the competing suppliers. He can make no plan:

he can only do his best to adjust his output to what, in the light of previous experience and current orders, he hopes to be able to sell at a satisfactory price.

In industries in which the adjustment of supply to demand takes a long time, because the process of production is protracted, and especially where the cost of errors in anticipating demand is very high, there is a strong inducement for *entrepreneurs* to endeavour to escape from this unsatisfactory position. They cannot indeed by any means escape the consequences of unpredictable changes in the total demand of the consumers, whether these arise from changes in fashion or from fluctuations in the general level of economic activity, though they can, by joint provision of efficient statistical services, equip themselves better to foresee such changes in total demand as can be predicted. They can, however, by getting together eliminate the important source of error in predicting their sales which arises from lack of knowledge by each *entrepreneur* of what others intend to do, both in fixing prices for their output and in determining its quantity. The simplest form of such co-operation consists in reaching a general agreement about prices, so as to prevent any one *entrepreneur* from undercutting the others. This enables each firm to guess more nearly its share of the total market, and thus to reduce the amplitude of its errors. But, as competition in quality and also in advertisement remains in being, even full knowledge of the total demand would not, under these conditions, give the individual *entrepreneur* any assurance of the quantity he would be able to sell.

Consequently agreements to observe fixed or minimum prices are often extended to include an allocation of definite output quotas to the various

entrepreneurs. The trade as a whole fixes a level of total output, and quotas adding up to this total are assigned to the individual firms. Usually it is not possible to insist on a rigid observance of these quotas; for one firm may only be able to sell less than its quota at a satisfactory price, while another may be easily able to sell more. In order to meet this difficulty with the least possible variation in total output, one of two alternative devices is commonly adopted. One is to allow any firm to produce more than its quota on payment of a fine, the proceeds being paid over as a subsidy to firms which produce less than their quotas. The other is to make the quotas transferable, so that any firm which desires to exceed its allocation can do so if it can persuade another firm to sell it a part, or even the whole, of its permitted quota. Neither of these methods secures an absolute fixity of total output; but the provision for readjusting the total at frequent intervals, with proportionate changes in each firm's quota, goes far towards achieving this, subject to the need for correcting the permitted output in the light of changing anticipations of demand.

As we have seen, this method of fixing output and prices by means of combination among groups of producers does enable *entrepreneurs* to reduce greatly the uncertainties which arise from the necessity of producing in anticipation of demand. But it is likely, save at times of exceptional boom, to lead to the under-use of productive resources, both by keeping existing plants working at less than their full capacity and by discouraging the building of new plants or the entry of new *entrepreneurs* into the trade. These latter can often be kept out by special arrangements which bind traders to buy only from firms inside the combine, or by the threat of being persistently undersold till

they have been driven off the market, when the combine hopes to be able to recoup itself by again raising prices. But the checking of fresh competition, which is most effective where the capital costs of entry into the trade are high, is not the only way in which combinations of this type are apt to restrict the full use of productive resources. They do this also because it usually suits them best to limit their risks by fixing prices relatively high and output relatively low—that is to say, by fixing prices high in relation to costs and output low in relation to what could be sold at prices approximating more closely to costs. This is not always the case, where demand is highly elastic; but it always tends to be the case where there is any high degree of uncertainty about the elasticity of the total demand.

It is true that the combine, where it passes beyond the fixing of prices and output and achieves real collaboration between *entrepreneurs* in the processes of production and sale—pooling of patents and advertising, joint marketing arrangements, or, at a still more advanced stage, actual pooling of productive resources—may be able to achieve such economies in the costs of production as to lower prices below what they would have been under competitive conditions, and thus expand the total market. But, even where this happens, and the industry is controlled by what is in essence a single concern or trust, prices are apt to be higher and output lower than they would be if the trust set out to achieve, not the highest total profit, but the fullest employment of productive resources compatible with a reasonable margin of profit. Sectionally planned Capitalism is thus, in the great majority of cases, restrictive in its use of the available resources of production.

Moreover, sectionally planned Capitalism usually leads, when it reaches at all an advanced stage, to more highly mechanised methods of production. It thus tends to decrease the quantity of labour employed in producing a given output. Its restrictive tendencies operate especially at the expense of the employment of labour. This restriction, however, has more than any other a limiting effect on the size of the market for cheap, mass-produced goods. It reduces just those forms of purchasing power which must be extended if the market for such products is to be elastic. It therefore reacts again to intensify restriction; for the combines, doubting the elasticity of the market for their goods, have a greater inducement to pursue a policy of relatively high prices and limited output. It is true that this policy often breaks down when, in bad times, the total high-price market becomes so small as to threaten the existence of the combine, and that then prices may be sensationally cut either by the combine itself, or as a consequence of its collapse, in the hope of reaching a wider market. But this price-cutting is usually delayed to the last possible moment; and the result is to cause huge fluctuations of prices instead of a more gradual adjustment to changes in the conditions of demand and to changing costs.

Against this it may be urged that highly mechanised methods of production, involving large capital expenditure, give a strong inducement to large output in order to spread overhead charges as thinly as possible, and further that the most mechanised plants are also those in which factory costs fall most rapidly up to the point at which the factory is producing the full output for which it has been planned. These contentions are both true; but they are commonly offset by other

influences. For the fact that a particular plant must produce up to its full capacity if it is to achieve the lowest costs does not mean that it pays to extend the output of the industry as a whole. It acts rather as an inducement to the more highly mechanised plants to use any method to put other plants out of business, either by buying their quotas, under a transferable quota system, or by buying up the actual concerns and dismantling the "redundant" factories, as we have seen has been done in a good many cases in recent years. In this way the most mechanised plants can achieve full output without increase in the total output of the industry as a whole. The *entrepreneurs* who are put out of business are paid for *not* producing; and what they receive goes on to the costs of those who remain in business, offsetting in part the fall in costs achieved by the concentration of output at the more mechanised plants.

Restrictive "planning" of this sort could be turned into the very different sort of planning which aims at the fullest possible use of productive resources only if the combines in control of the various industries could be effectively compelled by some superior authority to adopt a policy, not of maximum profit, but of maximum output. But it is clear that no capitalist producer, or combine of producers, can afford to produce at a positive loss, except for a short period in anticipation of a subsequent gain. Maximum production under capitalist conditions must therefore be subject to the condition that it must be remunerative production, saleable at prices which will at any rate cover costs, and leave an adequate margin of profit for the owners of the invested capital. It is true, that, if only the use of existing fixed capital resources had to

be considered, this margin could be lowered almost to nothing; for it would pay the owners of these resources better to earn even a very small profit on them than nothing at all. But if existing resources are to be soundly maintained and new resources applied to production, the profit incentive must be sufficient to attract new money capital, or at least to prevent the flight of all working capital that can be made transferable by conversion into money form. In default of this incentive, the resources of production will be allowed to decay, and the costs of production will promptly rise as productive power declines.

The power of any controlling authority to make capitalist combines pursue a policy of maximum output is thus very narrowly limited. It can go a long way with such a policy for a short time, as the Government of the Nazis in Germany seems to have done in order to decrease unemployment. But this can be achieved only at the cost of discouraging new private investment, and cannot be made the basis of a permanent policy. Apart from this, the power of a controlling authority is limited at most to compelling capitalist combines to alter their policy to the extent of raising production and lowering prices to the point at which their profits are reduced to the level that is needed to keep up the requisite flow of investment for maintaining and developing their productive efficiency—or, in other words, at which their rate of profit is adjusted to the current rate of interest obtainable for new capital.

Even this, however, is not at all easy to do. It can be attempted either by regulating prices by State action, or by taxing profits. But it is not at all easy to devise, in face of the intricacies of modern capitalist organisation, any effective system for the taxation of

monopoly profits. With interlocking companies, the level of profit can be manipulated between one concern and another by internal sales at arbitrary prices. Moreover, a firm is often in a position of monopoly in relation to certain of its products and not of others; and how is it to be decided what part of its total profit arises out of the monopoly? Nor must it be forgotten that, if all profits above the "normal" return on capital are skimmed off, the incentive to improve efficiency is removed together with only a part of the incentive to restriction. Taxation of monopoly profits can nevertheless be applied, up to a point; but it is not likely to be carried to a point at which it will remove the tendency to restriction, nor could it be carried to that point without other highly inconvenient results.

The alternative of regulating prices seems to offer more hope. It has been extensively applied in Germany, and it is in use in Great Britain and many other countries in certain public utility services which involve a high degree of monopoly. But its results have been disappointing, at any rate outside the limited field of the public utility services. It is difficult for the State to fix prices except for highly standardised things; but the diversity of output makes it necessary for price-fixing to extend far beyond this range if it is to be effective. Price-fixing under State auspices is apt to involve protracted investigations and proceedings, so as to be far behind the fair. Goods pass through many hands on their way from primary producers to consumers; and price-fixing is likely to be ineffective unless it is applied at each successive stage in accordance with a coherent policy. This is not to say that price-fixing is always ineffective; but it is very

difficult to apply, and would be difficult even apart from the political influence of the combines and the easily exploitable difficulty of holding the balance even between manufacturers and distributors.

Of course, these difficulties would largely disappear if the firms whose selling prices are to be fixed were co-operating with the price-fixing authorities in the endeavour to arrive at a "just price". The data on which the authorities must work are mostly in the possession of these firms, and have to be extracted from them. The firms usually wish to obstruct the process as much as they can, or at any rate to secure the highest possible level of permitted prices. Often the authorities cannot get at all the information they require: almost always, they get it only after undue delay. The experience of price-fixing as a remedy for capitalist restriction is not encouraging. It appears to work well only in the exceptional cases in which the monopolists have themselves an incentive to increase, rather than limit, consumption—that is, when their costs fall very fast indeed with increasing output. This is the case in some of the public utility services. But in these cases there would be little restriction even if prices were left unfixed.

There is, indeed, another way in which the State can tackle the problem. It can insist on the combines raising wages so as to absorb a proportion of their surplus profits. This, by widening the market for mass-produced goods, will have some effect in lessening the incentive to restriction, and in off-setting the consequence of mechanisation in lowering the total wages-bill. But this policy can be applied only up to the point at which it begins to interfere with the inflow of new capital, or to remove the incentive to improved

methods of production. Moreover, where a combine has been exporting a part of its output at a price below that charged in the home market, it may destroy or diminish this export, by raising marginal costs to a point at which it is no longer worth while from the standpoint of the *entrepreneur*. A further difficulty is that wage-increases in one trade usually provoke wage-demands in others. But *entrepreneurs* in trades enjoying a less favourable monopolistic position may be unable to grant such demands without curtailing production and employment. Consequently, apart from other considerations, capitalist States are unwilling to force the monopolist to share his gains with his employees.

It must also be borne in mind that anything which raises wages without a corresponding increase in the return on capital is bound to intensify the tendency to mechanisation. This may be carried so far that, at the higher wage-level, the total wages-bill will be no larger than before. But if this is so, there will be no net incentive to expand output. If fewer wage-earners get the same total in wages, demand for certain products of the cheap luxury order will expand; but demand for others, which are nearer being sheer necessities, will contract. There will be some readjustment of output between mass-producing industries, but no net increase can be looked for.

In fact, there is no way in which a regulative authority can make a sectionally planned Capitalism follow a policy of maximum output in preference to one of maximum profit. The more capitalist enterprise is sectionally planned, under the control of monopolistic combines, the more restrictive it is likely to be, and the less disposed to make full use of the available productive resources, whatever the State may attempt

to do in order to correct this tendency. This restrictiveness is, moreover, increased by the close connection between trustification and mechanisation, which narrows the market by restricting the employment of labour even more than that of other productive resources.

Nor can this tendency be removed by any manipulation of the monetary system. The mere broadening of the basis of credit to allow enough of it to be used to enable all productive resources to be fully employed will not of itself cause the employment of a single additional resource; for the mere availability of credit affords no guarantee that more will be actually used. Credit is ineffective unless somebody draws upon it; and the extension of credit facilities by the Central Bank may merely leave the commercial banks with unused means of creating money on their hands. The commercial banks can doubtless make use of these facilities by lending to borrowers whose solvency they mistrust; and by doing this they will for the moment stimulate economic activity. But if their mistrust is well-founded, there will be a day of reckoning when the extended credits fall due for repayment. Of course, the banks may be unduly mistrustful, and to this extent inducing them to lend more may stimulate a lasting extension of business activity. But in times of depression, it is to the bankers' interests to lend as much as they dare; and it would be unwise to reckon on there being any large number of credit advances which they could make with reasonable safety, and are yet refusing to make. Besides, how can banks conducted for profit be expected to make advances which they believe to be unsound?

The situation is doubtless altered if the banks become public property, or if the State, while leaving

them in private hands, is prepared to guarantee them against loss. If they are guaranteed, they can safely make advances which they would otherwise refuse; and, if they are State-run, the State can cause them to follow any policy it chooses, under the same penalty of footing the bill. But neither State guarantees nor State ownership can afford any escape from the difficulty that, if an increase in activity is fostered by financing unsound enterprise, the chickens will in due course come home to roost. There will be unwanted, or unduly costly, goods on the market; and the presence of these goods, so far from helping towards a continued recovery, will be a factor making for economic recession and collapse. The enterprises which are engaged in price-maintenance by means of restricting output will not take up the additional credits; and these will tend to be concentrated on those forms of production in which relative output is already greatest. The disproportionateness of production will be increased: the recipients of the new credits, by glutting certain parts of the market, will cause losses to other *entrepreneurs* as well as to themselves: the final result may well be not an increase, but a fall in total output, and a further disuse of available resources.

This, of course, applies only if the advances made by the banks are planned only in total amount, and not in direction. But how can their direction be planned if the volume of industrial output is governed, not by the authority which authorises the advances, but by the sectional decisions of capitalist *entrepreneurs* seeking the maximum profit? The State can no more compel a reluctant *entrepreneur* to take up an additional bank advance than it can compel him to employ additional labour or to put a disused factory back to

work. Or rather, it can do all these things, but none of them without provoking the highly unfavourable reactions of which I have spoken already.

The State can, no doubt, plan the direction of bank advances in a restrictive way. It can forbid the banks to lend more than a certain amount to this industry or that. It can easily bring about the disuse of resources : its power to stop booms is unlimited, if it does not mind engendering slumps in their place. But its power, by manipulating money or controlling bank policy, even to the extent of bringing the banks under full public ownership, to increase the employment of resources in production is exceedingly limited—unless it also controls the industries whose production is to be increased.

We have, however, now to meet the arguments of those who contend that, while the increased issue of credit to producers is open to all the objections outlined above, what is required can be done if the credits are given to the consumers instead. Let the State, it is urged, create more consuming power, and more production will speedily follow. I do not dispute this. I agree that, if the State makes a present of new money to consumers—not a credit advance, repayable later on, but a *present*—the effect will be to stimulate additional production ; for the rise in costs which will follow the entry of the additional money into circulation will lag behind the appearance of the additional purchasing power in the market for consumers' goods, and the point up to which it pays *entrepreneurs* best to go on producing will be shifted forward over the whole range of consumers' industries.

Here, then, seems to be the way in which the increased issue of money can be effective in stimulating the fuller use of the available resources of production.

It is a policy which can be pushed far enough to bring these resources into the fullest practicable employment. When this has been done, the making of further presents to consumers must cease; for their effect can only be to inflate prices if there are no further unused resources to be called into play. But, if resources begin again to go into disuse, the presents can be at once renewed, on a sufficient scale to call them back into employment.

A policy of this sort is, however, not quite so simple as it sounds. The additional money accrues immediately to the consumers. Let us suppose, for the moment, that they spend it all on consumers' goods and services, without modifying their distribution of their previous incomes between consumers' goods and "saving". The whole additional supply of money is then concentrated on the demand for consumers' goods. If this demand is to be met without a rise in prices all the industries producing the goods required must be in a position to supply the additional quantities now demanded without increasing prices. Some of them undoubtedly will be in a position to do this, or even to supply at lower prices because of the economies of larger output; but it is certain that others will not, and that the prices of some consumers' goods will be increased. Moreover, if the policy is launched during a depression, as we may assume, many industries, despite the fact that their unit costs of production will fall with rising output, will take advantage of the more favourable market conditions to raise their prices, on the ground that they were previously being compelled to sell at uneconomic prices. It can be taken as certain that, despite the economies of mass production, the general tendency will be to increase prices, especially as current rates of interest will rise immediately the

new consumers' money offers more favourable opportunities for investment.

The rise in output will therefore be a good deal less than proportionate to the addition to the consumers' incomes. But this, it may be said, does not matter because it only means that more new money will have to be made before all productive resources can be brought into use. At this point, however, two further problems arise. In the first place, a part of the added consumers' demand will be for imports, the purchase of which cannot be financed unless exports are increased. But will the policy increase exports? In the long run it will doubtless tend to do this, because the buying of more imports will tend to enlarge the market for exports. But this reaction need not be immediate, or considerable enough even over a substantial period, to enable the further imports to be paid for. This may lead to a policy of depreciating the external value of the currency, so as to stimulate exports and discourage imports, and by raising the prices of imports cause the consumers to be more reluctant to spend their additional money on them. Such a policy would of course be impracticable if the currency were pegged to an international standard. It is quite practicable where the currency has no fixed external value; but it is obviously liable to provoke international reactions.

How far such a policy will in fact discourage the purchase of imports depends of course on the intensity of the demand for them in comparison with home products; and about this no generalisation can be made. Clearly, however, the use of currency depreciation will be an additional factor leading to a rise in internal prices, and will thus swell further the amount of monetary expansion required to bring the available

productive resources fully into use. This effect may go very far, if the consumers desire to spend a large part of their additional incomes on imported products, and desire this so keenly as not to be put off by a small rise in their prices.

Secondly, although the new money may be issued to consumers for spending on consumers' goods, and may even be, as some have suggested, a special sort of money which can be used only for buying such goods, its effects cannot in practice be so canalised; for it is impossible to prevent the possession of an additional supply of purchasing power from affecting men's ways of spending the rest of their incomes. With the advent of the new money, some part of the new incomes previously spent on consumers' goods will certainly be withdrawn from the consumers' market, and saved or invested. The effect of this will be to spread the stimulus given by the issue of the additional money to the industries producing capital goods as well, and thus to make its impact more even over the whole economic system.

Unless the country was previously suffering from definite "over-investment"—which I do not believe to be a possible condition except as the accompaniment of an inappropriate distribution of incomes, such as an issue of additional incomes to consumers would help to correct—this evening out of the demand caused by the new money would be a good thing. It would lessen the rise in prices, which would otherwise be great in some of the industries producing consumers' goods, and it would administer a salutary stimulus to the industries making producers' goods, in which the unemployment of resources is usually greatest during a depression. There would be less upsetting of the balance of production than is likely to occur through

an increased issue of credits to producers. It would be a mistake to attempt to issue the new money in a form in which it could be spent only on consumers' goods; but the mistake would not be disastrous, because it would be easy for consumers to correct it by altering the distribution of the remainder of their incomes.

It is a condition of the success of the policy I have described that the new money should be given as a present to the consumers, and not as a loan, and equally that it should be created by the State, and not borrowed from the investing public. For the aim of it is to create additional demand without creating additional debt. To grant the consumers merely repayable credits would be no more effective than instalment purchase has proved in practice, or than the granting of additional credits to *entrepreneurs* by the banks. For if the sums advanced are to be repaid later, the repayment will diminish incomes by as much as they have been increased. A temporary stimulus may be given, but only at the cost of a subsequent recession.

On the other hand, if the money is a present it constitutes a permanent addition to the community's monetary supply; for money once created, otherwise than by way of loan, continues to circulate indefinitely. We have seen reason in an earlier chapter to hold that the supply of money in the community ought ideally to be brought to a point just sufficient to ensure the full employment of the available resources, and then varied only in correspondence with changes in the quantity of these resources, and especially with changes in population.¹ This, however, is a policy of perfection,

¹Changes in the supply of money may be needed also if the money-using habits of the community change. But this does not affect the argument of the present chapter. See page 111.

designed for an economy from which causes (other than the supply of money) of fluctuation in the use of productive resources have been removed. If these other causes of fluctuation remain in being, the occasion may recur when it is necessary to increase the supply of money, independently of changes in the supply of productive resources, in order to resume full employment.

Whenever the need arises to increase the supply of money, I am suggesting that the increase ought to be made not in the form of increased loan credits to either producers or consumers, but of non-repayable presents of purchasing power to all the citizens, save to the extent to which the State decides to use the new money itself for public purposes. In no case ought the creation of the additional money to create any new debt. It should be a sheer addition to the purchasing power of the community, collective or individual.

This leaves open the choice between presents of purchasing power to the consuming public, and the direct use of the additional money by the State. Let us now discuss the second of these alternatives. The State, if it decides to use the money, can either remit existing taxes to an equivalent extent or embark on additional expenditure. To remit taxes is equivalent to making the citizens a present weighted according to the taxes remitted and to the incidence of the tax system. It is likely to result in a far less equal distribution of the benefit than a direct grant of money to the consumers, which could hardly be made on any other than an equal basis. It is therefore a wrong use for the money, unless it is desired to increase the inequality of distribution.

This objection does not apply to the use of the money for financing additional public expenditure.

For this will mean that the State will be able to get valuable public works carried out without direct cost. The money, paid out chiefly in wages and payments for materials, will pass into general circulation, on a par with the money already circulating and in such a way as to promote a diffused revival of industry without much disturbance, and the State will have the public works and will thus have diverted to the general benefit a part of the gain which would otherwise have accrued to private *entrepreneurs* in the higher profits resulting from greater general prosperity. The addition to the spending power of individual consumers will be less; but they will have the benefit of the new public amenities thus provided without direct cost to the State.

The obstacle to the pursuit of this policy is, as we have seen earlier, not the lack of suitable public works, but the impracticability of pushing it far without entering the domain which "private enterprise" claims as its own. For example, a natural use for the State to make of the new money would be the financing of a national policy of building houses to let at rents unencumbered by charges for interest on borrowed capital. But this would at once invade the "rights" of the private house-owners and building speculators, whose rents would be driven down by the competition of the new State houses. It suits private enterprise very well that the benefit of additional creations of money should not accrue to the public; and all their spokesmen will unite to denounce any proposal that it should as "inflationary" and unsound.

There is, however, nothing more inflationary in creating new money without interest than in adding to the volume of bank advances. The only difference in this respect is that the addition to the volume of

money is permanent in the one case and only temporary in the other. But why should it not be permanent, if it is to serve as the instrument of a policy of continuous full use of productive resources which will remove the need for a subsequent "deflation"?

The creation of new money, without interest or repayment, for public or private spending can stimulate economic activity; but it cannot prevent the continuance of the restrictive tendencies inherent in capitalist combination. The addition to the volume of spending power will indeed advance the point to which even restrictive combinations will be ready to push production. But it will achieve this only temporarily; and, as productive capacity further expands, the restrictive tendency will again assert itself in the old way. The State will therefore have again and again to bring disused resources back into employment by fresh infusions of money, in order to correct the recurrence of restriction. This will involve a constantly rising level of prices, or at any rate a level which remains stationary, or recedes, for a time only before taking a fresh upward leap.

It may be said that these upward movements of prices will not matter, provided that the national currency is not pegged to a fixed international value. They will only involve a parallel process of exchange depreciation. But it should be observed that, from the point at which productive resources have once been brought back into full use, the need for additional money, except in proportion to additions to productive resources, arises not from the insufficiency of the existing supply of money, but from the practice of restrictive policies by the interests in control of production. It is because these interests are able to hold

up prices above the appropriate point in relation to costs that a larger amount of money is needed in order to maintain the full use of the available resources. In other words, the monopolists always need the stimulus of a rising supply of money to induce them to push production to the point which it would reach under conditions of full and unlimited competition.

Because costs do not rise at once, or soon, in proportion to the new money infused into the system, the adding of this money does stimulate higher production by monopolists as well as by competitive producers. But it is impossible to go on pouring in new money without altering relative as well as absolute prices. The monopolists, best placed before for skimming off an exceptionally large surplus, will be still in the same favourable position as each new dose of money comes into circulation. They will be tremendously enriched at the expense both of consumers and of creditors, and also probably of wage-earners—for it is highly unlikely that wages will be forced up as rapidly as the prices of monopolised products. A particular section of the class of capitalists will thus gain, and keep on gaining, at the expense of other sections—with important reactions on the attitude of small and large *rentiers* and of the smaller *entrepreneurs* who are unable to arm themselves with the weapons of monopoly.

Clearly one effect of this will be to distort the structure of production, so as at least in part to offset the effects of the free distribution of additional purchasing power upon demand. The consumers will have more to spend; but the monopolists will be better placed for getting more of their money out of them in exchange for a restricted supply of goods. For the power of the monopolist is greatest when incomes are

highest; and it is then also liable to provoke the least protest from the consumers.

The monopolists, however, to the extent to which the State, by creations of new money, does succeed in maintaining full employment, will be faced with more powerfully supported demands from their employees. For the power of Trade Unionism is evidently greatest when there are least unemployed under temptation to accept cut rates, and when the employed workers stand least in fear of losing their jobs. Some part of the monopoly profits which the capitalist "planners" are able to extort will therefore be filched from them by their employees. This will cause the monopolists to intensify their search for "labour-saving" methods of production, in order to use a larger proportion of capital in conjunction with a smaller proportion of labour. This will tend, as far as it is successfully done, to limit wage-advances and to increase rates of interest.

Despite these and many other reactions which the reader can work out for himself, it does seem to me undeniable that the State, by creating new money without thereby creating new debt, can come near to bringing about the full use of the available productive resources, and can, by recurrent infusions of additional money, keep these resources in use. But it cannot do this without recurrently raising prices, or without conferring huge advantages on every sort of capitalist monopoly, or, finally, without considerable danger of so overstepping the mark that the entire process gets out of hand.

In a situation of depression, in which widespread unemployment and distress exist, there is a strong case for taking drastic emergency measures. If prosperity can be restored by one single act of new

creation of currency, it will be foolish not to take this action, even if there is a danger that either miscalculation or vested interest may cause it to be carried beyond the *optimum* point, with inflationary consequences which will need to be corrected later on. But it is quite another matter to contemplate a situation in which the State will have to face this danger not once, but again and again, as a means of counteracting the restrictive policies which it continues to allow the controllers of its industries to pursue. For the repetition of the danger magnifies it greatly, and lays the State continually open to the attacks of those fanatics who always and unquestioningly believe that every evil that afflicts the economic system can be cured by the emission of additional money.

What I mean here by "inflationary" is simply "in excess of the amount needed to secure reasonably full employment of the available resources". I agree that the word "inflationary" can be used in a wider sense, to include all additional creation of money that has the effect of raising prices. I have, indeed, often used the word in this sense myself in other connections. If the economic system were not subject to restrictive monopoly influences, I should regard all fresh issues of money that either raised prices or prevented them from falling as efficiency rose as inflationary. But if we are working within a system in which restrictive practices play an important part, it will be impossible to secure full employment of resources without also causing prices to rise. For the purpose of the present argument, which assumes the influence of restrictive combines, I therefore define "inflation" in a narrower sense.

If the issue of new money does at any point become inflationary, in this narrower sense, the result is

certain to be a sharp burst of speculation. But the effect of speculation is, notoriously, to throw the economic system out of gear, and to cause a disproportionate development of its various parts. It may well cause also such a lock-up of money resources in speculative dealings as will prevent the new money, even if it be excessive in amount, from securing the necessary additional employment of resources; and in that case the demand will go up for yet more money, which will in its turn intensify the activity of the speculators, and so on, until the whole process culminates in a disastrous crisis in which money is for the time almost deprived of purchasing power.

I admit that this danger is much less if the additional money is spent by the State on public works than if it is issued in any other form. It is also less if it is issued as gifts to consumers than if it appears in the form of additional loans from the banks. But if once the issue of money is allowed to outrun what is needed in order to call disused resources into play, the tendency to cumulative inflation very easily sets in.

While therefore I hold that an all-wise State could by continuous manipulation of the supply of money secure something approaching continuous employment of all the available productive resources, I am by no means in favour of embarking upon such a policy of recurrent emissions of new gift money, as an instrument for correcting the continuously restrictive tendency of sectionally planned Capitalism. A far less dangerous and more appropriate remedy is to strike at the roots of the restriction itself, and thus make possible a sound policy of monetary stability. For such soundness in monetary policy we shall seek in vain as long as we allow industry to be controlled upon principles of restriction and monopoly.

CHAPTER IX

PLANNED DISTRIBUTION OF INCOMES AND PRODUCTION

REAL Planning involves the control of the money machine, and the adoption of a monetary policy designed to make possible the full use of the available resources of production. But it also involves a great deal more than that. Its object is to secure that the available resources shall be both fully used, subject to the claims of leisure, and used to the best possible purpose.

But what is the best possible purpose? Such a question is unanswerable except in relation to some working standard of utility. It implies reference to a social standard which cannot be identified with the price standard accepted by most economists as sufficient for the measurement of purely economic goods. For the goods which we have to consider as soon as we begin considering how productive resources can best be used are not purely economic. They are social and personal, involving considerations of justice and well-being as well as of preparedness to pay.

Moreover, the economists' criterion of preparedness to pay melts away under the conditions of a planned economy. For preparedness to pay depends upon incomes, and it is inconceivable that a planned economy should leave the distribution of incomes unplanned. We have seen already how, under the planless economy of Capitalism, the distribution of incomes tends to be

self-perpetuating, so that the prices accruing to the various factors of production tend to reproduce the prices paid in an earlier cycle. The distribution of incomes does of course change; but it changes, as a class-distribution, only in face of powerful forces which tend to keep it broadly as it has been.

It is no doubt possible to conceive of a planned economy which would take the current distribution of incomes for granted, and seek only to make production correspond as closely and fully as possible to the current structure of demand, accepting as given the existing inequalities based on ownership, inheritance, differences of education, and all the other forces which hold men apart in separate economic classes, whatever overlappings and minglings of neighbouring classes there may be. It is possible to set out to adjust production to any structure of demand, without raising any questions about the social expediency or justice of the distribution of incomes upon which this structure depends. The advocates of capitalist planning have presumably just such an adjustment in view. Their complaint against planless Capitalism is not that it fails to achieve a just distribution of wealth, but that it fails to meet adequately the demands of the community as it is, divided into classes, with wide differences of income and education, and with the existing recognition of property rights.

I do not deny the possibility of planning along these lines, though I have tried to show that it will hit up against the restrictive policies inherent in developed capitalist enterprise. But I do question the possibility of its adoption by any community which purports to govern itself in a democratic way. When once the State begins to interfere with what *entrepreneurs* are

allowed to produce—to order them to produce more of this thing than they believe will conduce to their profit, to produce this thing instead of that thing which they see more hope of selling on advantageous terms, it will not be long before there is a widespread popular demand that the orders issued by the State to *entrepreneurs* shall be based on considerations of social expediency and justice, and shall not seek merely to promote a more adequate response to the existing structure of demand. The more democratic party, or parties, will take up this cry, and make the justice and expediency of the capitalist plan a political issue, over which elections will be fought; and even the less democratic parties will have to assert that their plan, though it is based on the existing distribution of wealth, is also socially the most expedient and the most just.

A great many capitalists are so fearful of the raising of this fundamental issue that they regard those of their fellow-capitalists who do advocate a planned system as dangerous heretics, either disastrously deluded or well on the way to turning into Socialists. Most articulate capitalist leaders vigorously defend a planless economy because they regard it, whatever its faults, as the only reliable upholder of the rights of property. It is for this reason very improbable that planned Capitalism will ever be seriously tried in any country which retains its partially democratic political institutions. Pretences at planning may be made: there may come to be a planned monetary system combined with a great deal of sectional rationalisation of industry. But there will be no general planning of production.

The position may indeed possibly be altered where Capitalism, in defending itself against Socialism, has

taken the offensive and overthrown the parliamentary régime. A dictatorship of the property owners, immune from overt criticism in Parliament or outside it, may venture to make and enforce a comprehensive plan. But even this is unlikely because, within the dictatorship, the interests of large-scale and small-scale Capitalism will not be the same. Fascism achieves power chiefly by mobilising the small property-owners against the Socialists; and its dictatorship is in form largely that of the petty *bourgeoisie*. But it can hardly win, or subsequently hold, power, without having the main body of the great capitalists on its side. These great capitalists are in no wise prepared to accept the dictation of their allies, and they remain too powerful for the smaller property owners to coerce. Only if the latter are prepared to ally themselves with the workers against the great capitalists can such coercion succeed. But the alliance of the workers is dangerous. It paves the way for a return to democratic institutions, and perhaps for a conversion of Fascism into the semblance of the very enemy which it arose to fight. Middle-class-conscious leaders of the Hitler type will far sooner abandon planning in deference to their upper-class and great capitalist allies than face the conversion of Fascism into a sort of Socialism.

Fascism, however, can venture to carry planned Capitalism further than it is likely to be carried under a parliamentary system. It has more power to make the large-scale capitalists accept orders which do not seriously affect their power; and it is likely to come to authority only in countries whose economic systems are already disordered, so as to require a large amount of State intervention and control. It has to feed the people; and, in order to do this, it must use every effort

to force *entrepreneurs* into employing them. Countries immune from Fascist control, mainly because their economic systems are less disordered, can carry on with less interference by the State; and it is most unlikely that any comprehensive planning will be attempted in them save under Socialist auspices. If, however, planning is introduced by Socialists, it will obviously not take the existing distribution of incomes for granted, and it obviously will seek to plan production, at least in some degree, according to conceptions of social expediency and social justice.

What, then, are the criteria of expediency and justice which will be applied? The first and most far-reaching is that need, rather than demand, will become the primary criterion of the worthwhileness of productive effort. The need for bread will take precedence of the demand for cake, up to the point at which the entire community is in a position to consume enough bread to satisfy all reasonable needs. More broadly, the need for a generally diffused supply of all things which can be regarded as necessities of civilised living will constitute the first overriding claim upon the available resources of production. A satisfactory minimum of food, fuel, clothing, housing, education and other common services will come before anything else, as a social claim that a planned economy must meet.

There is, however, in any advanced society a very wide range of goods and services that can be classified neither as necessities nor as luxuries. Some things, such as bread and housing and education, are necessary, up to a certain minimum standard, for every member of such a society. Others, such as tobacco, or cinemas and theatres, or beer, or a further supply of the elementary necessities beyond the minimum standard,

are not necessities for everybody; but it is necessary for everybody to have at least a minimum income which he can devote to buying goods and services of this second class. What he buys is for the most part his affair; and the more advanced a society is, the wider his range of choice is likely to be. The satisfaction of this need for further goods and services which, while no one of them is a universal necessary, yet form a necessary part of a tolerable standard of living, will constitute the second claim upon the available productive resources.

In the field of primary necessities there will be no doubt about what the planned economy is to set out to produce, though there will be doubt about the level at which the necessary universal minimum is to be set, and therefore about the total size of the primary claim. But in the secondary field of what we may call "substitutable necessities", there will be doubt. It will be desirable for the most part to leave the individual citizen the widest range of choice in deciding which of these secondary goods and services he prefers, and is therefore prepared to pay for out of his limited income. But as soon as this freedom of choice is assumed, it is at once apparent that the structure of demand for substitutable necessities to which the planned economy will have to respond will depend on the distribution of incomes, and that no plan for their production can be made except with a definite distribution of incomes in view. The primary necessities can be distributed free to everybody, or, if they are sold, their prices can be lowered so as to bring them, or the required minimum quantities of them, within everybody's reach; or again a basic minimum income can be assured to everybody without any general control of the distribution of

incomes above the minimum. But none of these methods will solve the problem of planning the production of substitutable necessities. This will have to be done either in the light of the distribution of incomes as it is, or in the light of a planned redistribution of incomes.

Our Socialist planners will, however, by no means be prepared to take the existing distribution of incomes as an adequate criterion of the justice or expediency of production in this secondary field, any more than in that of the production of luxuries, properly so called. They will therefore be inexorably driven to plan the distribution of incomes as a condition precedent to the just or expedient planning of production. At the very least, this problem will begin to face them as soon as they have dealt with the first problem of planning the required minimum of primary necessities.

It will face them the sooner, because primary and secondary necessities consist so largely of the same types of goods and services. A house is a primary necessary: a rather better house is only a substitutable necessary: a still better house is a luxury. But how big a house belongs to each of these categories depends first on the standard of living which the community is in a position to achieve, and also on the size of the family group that is to live in it, and further in some cases on the climate and the occupations of the family. Some meat is a primary necessary, some more a substitutable necessary, yet more a luxury—and so on, through almost the whole range of products which are primary necessities at all. The planning of production of primary necessities, substitutable necessities and luxuries is not the planning of three different types of output, but largely of different quantities of the same

things. The three sectors of the production plan cannot be isolated. There is indeed a wide range of commodities that does not belong at all to the primary class. But it largely overlaps between the second and the third. Almost any substitutable necessary becomes a luxury when you have more than a certain very limited amount of it.

This makes it the more evidently impossible to plan production on a basis of social justice or expediency except in the light of a prior planning of incomes. There is, except in a limited number of special cases, no clear reason why a society should wish its members to spend their incomes on one thing rather than another, after the minimum requirements of decent and healthy living have been met. It may be desirable to prohibit altogether certain forms of consumption—drug-taking for example—and therefore to restrict production in this field to what is required for strictly medical purposes. It may be desirable to discourage the consumption of certain things without prohibiting it altogether—for example, spirits; but the most natural way of doing this will be by charging a high price for such goods, and then limiting production to what is demanded at this price. It may be desirable, on the other hand, to encourage certain kinds of consumption, even when they cannot be regarded as strictly necessary; and this can best be done by providing them either free of charge up to a rationed amount, or at specially low prices. Subsidised municipal theatres or orchestras may serve as examples of this type.

But, except where a service is provided actually free of charge, the demand for it will be affected by the distribution of incomes. The fixing of a certain price for spirits, or theatre-seats, will have quite different

effects with different distributions of income among the members of the community. A pricing policy designed to encourage or discourage particular kinds of consumption can be framed only in the light of a given income structure.

With most things, however, beyond the level of a minimum standard of necessity, the State will be concerned neither to encourage nor to discourage consumption on social grounds. There may in certain cases be strong *economic* reasons for encouraging one form of consumption against another, where the output of one kind of goods can be more easily increased, so as to lower unit costs as the total output rises. But cases of this sort, which involve no further question of social expediency, can obviously be met by lowering prices in accordance with the fall in costs. If demand does not respond to the fall in prices, that constitutes a clear reason for not expanding production; for it means that, within the given structure of incomes, a larger supply of the goods in question is less wanted than a larger supply of something else.

Over by far the greater part of the field of production, therefore, the task of a planned economy will be not to dictate what is to be consumed, but to respond to the movements of consumers' demand. It will be for the consumers, and not for the planners, to express a preference for more gramophones as against more cigarettes, more commodious houses as against more motor-cars, more mutton as against more bacon—in fact, more of any one thing as against everything else. If things are to be sold at all, as we are assuming, the consumers can do this only by buying up the available supply, or by demanding more than the available

supply, or by not buying all of it, at the prices at which it is offered. The planning authority will be endeavouring to anticipate correctly how much will be demanded, at the prices at which it is proposed to sell, and at producing just the quantity needed to satisfy the demand. If it proves to have overestimated the demand, it will have either to reduce its prices so as to clear its remaining stock, or, in the case of non-perishable goods, to hold the balance over and reduce its output to the required extent in the next period of production. If the demand has been under-estimated, either prices will have to be raised or, more probably, some people will have to manage with less than they would have been prepared to buy until there has been time to increase the supply.

This is, of course, so far exactly how matters are managed in the planless economy of to-day. When a product is monopolised in the hands of a single united group of *entrepreneurs*, this group seeks to anticipate correctly how much it can sell at a given price, and to correct its errors by adjusting either its prices or its further production. Where competitive conditions do exist, each rival *entrepreneur* makes the same attempt, with the added liability to error that arises out of his want of knowledge of what his competitors are doing. The difference is only that under the present system each *entrepreneur* adjusts his price and output to the securing of maximum profit, whereas the planned economy will seek in all cases to market the largest output that can be sold so as to cover necessary costs. To this vital difference we shall come back later. For the present we are concerned only with the similarity. Both the planned and the planless economy have the same necessity to adjust their output to what the

consumers are prepared to buy at prices at which the producers are prepared to sell.

The consumers' preparedness to buy is the expression of their desires as limited by their incomes. They possess each a limited total purchasing power, which each endeavours, more or less rationally, to expend so as to secure the greatest satisfaction. Demand therefore depends on two distinct factors, which find a combined expression in the prices consumers are willing to pay. The structure of demand can be altered either by changes in wants, or in the relative urgency of different wants, or by changes in the distribution of incomes. Take two sums of £100 each. Give £100 to one man, and £1 each to one hundred others. The effects on demand will be radically different. Repeat the process a year later, and already changes in fashion will have caused changes in relative wants which will cause both sums to be spent in somewhat different ways.

It is clearly out of the question for any planning authority, however skilled, to anticipate changes in fashion with perfect correctness. No planned economy can ever hope to produce in exactly the right proportions the various things which the consumers will want to buy. It will, therefore, be necessary to keep the structure of production as unrigid as possible, in order quickly to adapt it to changing currents of demand. But, as we have seen, the large-scale producer and the large-scale trader have both a very great power to influence fashion, and thereby to make their predictions come true; and this power will accrue to a planned economy in still larger measure. It is indeed one of the principal dangers of a planned economy that the power of influencing demand may be so used as to

weaken the consumers' power of choice; and it will be necessary, by associating representatives of the consumers with the working out of the plan, constantly to guard against this tendency. If, however, consumers' incomes can be so raised as to give everyone a surplus to be spent on substitutable necessities and cheap luxuries, the consequent enlargement of freedom of choice is likely very much to outbalance any tendency of the planning authority to persuade consumers into buying what they do not want.

The second cause of uncertainty in demand—uncertainty about the distribution of incomes—a planned economy will be able largely to remove. Working on the basis of a planned income structure, and with a fixed intention of keeping all the available resources of production regularly employed, the planning authority will be aware in advance what the total money purchasing power available for buying finished goods and services will be, and broadly how this total will be divided between incomes of different sizes. With this knowledge at its command, it will be able to make far more exact estimates of the probable demand for different types of goods and services than even a complete monopolist can usually make inside a planless economy. For the monopolist is always uncertain both of the total purchasing power that will be applied to buying goods and services and of its distribution. Unless the demand for his wares is exceptionally inelastic, he is bound to be very uncertain about the amount of sales he will be able to make at any given level of price, or the prices he will be able to charge so as to dispose of any given supply. The planned economy, on the other hand, has only to face changes in the consumers' tastes, and not changes in the

absolute and relative sizes of their incomes as well, save to the extent to which these latter changes form part of the plan, and are therefore taken into account in framing the estimates of production. I am not, of course, suggesting that the planning authority will have advance knowledge of the exact size of every individual's income. That is by no means required. What is needed is a knowledge of the total purchasing power which is to be made available for spending on consumers' goods and services, together with a broad general knowledge of its prospective division into incomes of different sizes and types, and between different areas—say, between urban and rural populations, because urban and rural incomes are likely to yield somewhat different allocations of demand.

We have therefore to consider, before we can advance to any clearer idea of a Socialist plan, how and in what proportions, a planned economy would provide for the distribution of incomes.

In the planless economy of to-day, incomes fulfil a dual function. They have to finance the current spending of all the people on consumable goods, and they have also to provide for the accumulation of capital through saving and investment. Some saving and investment is indeed already provided for in a special way, through the placing of sums to reserve account by businesses and other corporate bodies; and these corporate savings never pass through the stage of becoming personal incomes. But much investment is still done out of the personal incomes either of rich people who save what they have no strong desire to spend or of relatively poor people who put away resources to provide for a "rainy day", for their old age, or for giving their children a start in life. The sum

accruing as incomes to the members of the community is therefore meant to be large enough to buy not only the current supply of consumers' goods and services, but a proportion of the investment goods as well.

It is safe to assume that in a planned economy this serious source of disturbance in the economic world will no longer be suffered to exist. Investment in planned industry will be provided for, not by appealing to individuals to save a part of their incomes, but by holding back, before private incomes are distributed at all, the purchasing power needed to acquire the requisite supply of investment goods. The distributed incomes will therefore not need to cover the purchase of such goods, but will be wholly available for spending on consumption. There is, of course, no reason why people should not continue, if they so desire, to save a part of their incomes; but in a planned economy their doing this will be of no economic service, and their savings will accordingly command no interest. The State will be prepared to accept such savings on deposit, and to release them for spending when they are asked for; but it will meet any such disposition on the part of the citizens to save, beyond the collective saving already provided for, by an equivalent reduction in its collective saving and an equivalent increase in the current distribution of incomes. Similarly, if there is a tendency at any time for such savings to be withdrawn, the planning authority will meet the position by increasing the sum withheld from the current distribution of incomes, so as to preserve what it considers to be the appropriate balance between capital accumulation and consumption. Under such a system, both over-saving and under-saving will be impossible,

save as the result of mistakes made by the planning authority itself.

We can, then, assume that normally the total income distributed to the citizens will be intended to be enough to purchase the current supply of consumers' goods and services, and these only. On what principles will the distribution of incomes for these purposes be made? At present incomes accrue to individuals either as payments for real or imputed services to production, or as "doles" of one sort or another from the public purse—the term "dole" being here used to include payments of interest on public debts as well as pensions, insurance payments, poor relief, and so on. The consequence of this system is that if for any reason production is cut down incomes are cut down as well; for State doles are paid not by creating additional incomes, but by taxing those which already exist. Consequently, if for any reason under-use of productive resources sets in, it tends to become self-perpetuating, because incomes cannot be increased until production has been increased, but production will not be increased until incomes are available to purchase the extra products.

A planned economy will seek to begin at the other end, by distributing enough income to buy at the planned prices all the consumers' goods and services which can be produced with the available productive resources, so as to leave adequate provision for the making of the requisite supply of capital goods. There will be a planned total of incomes as well as of products, and the aim of the plan will be to balance these two at the highest practicable level.

How will these incomes be distributed? There are two possible ways—payments for work done, and "doles", or, to give them a less coloured name, "social

dividends". I believe the system of distribution will be a combination of these two, but a very different combination from that which now exists. After a transitional period of compensatory allowances to the owners of capital, payment of interest will cease altogether, both on public debts and on private investments, being superseded by the new methods of collective provision for the accumulation of capital. This will make an end of one large class of income payments for imputed services to production, and also of a large class of doles at present financed by local and national taxation.

There will remain, broadly, two sources of income—work and citizenship. Incomes will be distributed partly as rewards for work, and partly as direct payments from the State to every citizen as "social dividends"—a recognition of each citizen's claim as a consumer to share in the common heritage of productive power. I believe the tendency will be for a planned economy steadily to reduce the proportion of total income distributed in the first of these ways, and steadily to enlarge the amount of the social dividend.

For the distribution of this dividend I can see no possible basis except that of need. The aim should be, as speedily as possible, to make the dividend large enough to cover the whole of the minimum needs of every citizen. Being paid as a civic right, it will be of equal amount for all, or rather for all adults, with appropriate allowances for children. It should be from the beginning at least large enough to cover the bare physical necessities of every family in the community. Put it provisionally at 30s. a week for every adult, 20s. for each young person above 15, and 10s. for every child, at the present level of the cost of living.

Put the total sum at approximately £2,750,000,000, or more than two-thirds of the estimated national income of to-day.¹ This would leave the balance of the available income, after providing for the accumulation of capital, to be distributed as payment for work done. Obviously, the great majority of people would draw more income as a social dividend than as salary or wage; and earnings would become a means, not as now of supplying the elementary necessities of life, but of enjoying a surplus above the minimum. Earnings would continue to be unequal; but the degree of inequality could be greatly reduced. If the maximum a man could earn came to no more than the amount of his social dividend, the incentive to earn it, in a society living nearly at a common standard, would be fully as powerful as the incentive to earn many times as much is in the class-ridden society of to-day. For the demand for little luxuries and a larger supply of substitutable necessities is the keenest of all human demands. The need for very high monetary incentives is a product of class-inequality, and not of human nature. It will be ended when men can no longer accumulate property as a means to power, or hope to live at a standard far beyond that of the great majority.

Earnings will become, under such a system, more and more of the nature of "pocket-money", without any loss of the incentives to effort such as absolute equality of incomes would involve. Work will have its sufficient reward; but the main part of the national income will no longer be distributed as a by-product of industry.

It is clear that under such conditions the greater part of demand will be very much easier to anticipate

¹For the further development of this proposal see the Appendix to this Chapter, page 246.

than it can be to-day. The basic needs are neither highly subject to individual caprice nor very liable to rapid change. What each individual demands will vary; but the law of averages will afford, over a large part of the field of production, a fairly safe and accurate guide to the demand of the market. The uncertainty will arise chiefly over the expenditure of earnings—that is, of incomes above the national minimum of the social dividend. But even here the much closer approach to equality will make the uncertainty, over short periods, very much less. It will be fully possible for a planning authority constantly on the watch for changes in fashion and interest to frame its plan of production in such a way as to keep errors of anticipation within fairly narrow limits, and to provide for their prompt discovery and correction as they arise. This is the more practicable because errors are more likely to arise in the finishing trades than in primary production, and to be capable of quick correction by diverting materials and semi-manufactures from one finishing process to another. The capital structure of the finishing trades can be more easily and quickly adapted than that of the basic industries; and it should be part of the policy of the planning authority to increase adaptability by making machines and factories no more costly and durable than they must be in order to serve their short-run purpose.

Of course, the problem of anticipating demand and relating production to it is greatly complicated by the fact that a considerable part of the demand will need to be met by imports, which will have to be paid for mainly by exported products. It is therefore necessary in making the plan of production to anticipate the demand for imports, and to adjust production to the

need of selling enough exports to pay for the required volume of imports. It is largely because this so evidently complicates the problem that many advocates of planning hanker after an approach to national self-sufficiency. A self-contained, or mainly self-contained, economy can obviously plan its output of the various classes of goods and services far more readily than one which depends to a large extent upon international exchange. But, whatever may be possible in the long run, without serious loss of efficiency in production, to so vast and diversified a country as Russia, or even to the United States, it is obvious that so small a country as Great Britain cannot possibly do without a very large volume of imports, and would incur serious loss if imports were restricted to types of goods which could not under any conditions be produced at home. We shall have to discuss later to what extent the adoption of a system of planning is likely to involve a greater degree of self-sufficiency, or how far such a change is likely to be enforced by a growing difficulty in finding markets for a large volume of exports.¹ But for the moment we are not concerned with the quantitative aspects of the problem, but only with the manner in which a planned economy will have to react to the necessity for exporting in order to pay for necessary imports.

The logical sequel to the planning of incomes will be the drawing up of a plan of national consumption. With the statistics of previous years to work upon, the planning authority will be able to get a fair idea of the minimum supplies needed of most of the basic raw materials and foodstuffs, and also of the elasticity of the demand for these products above the minimum.

¹See Chapters XIII and XIV.

Some things will have to be wholly imported—oranges, bananas, raw cotton, rubber, and so on. Others, such as wool, meat, apples, and iron ore, will have to be partly imported and partly produced at home. Of yet others, such as coal, there will be no doubt about the desirability of producing the entire supply within the country, while some, such as sugar, may be capable of being grown at home at all only at a price far higher than the cost of imports. As we saw in an earlier chapter, the first steps will be to decide to produce at home, up to the required quantities—and of course after making allowance for accumulated stocks—whatever can be produced at less cost than the exports required to pay for equivalent imports. This will involve many delicate problems of quantitative estimation, as Major Elliot has already discovered in making his plans for home agricultural production; and the task will be most difficult where the producing industries are not fully socialised, so that it is still necessary to estimate the reactions of a number of private *entrepreneurs* to the offer of a certain level of prices. Estimates so made are, of course, bound to be subject to considerable error, both because the reactions of *entrepreneurs* cannot be exactly foreseen and because over the whole field of agricultural output nature provides a highly uncertain yield. Estimates, however, will have to be made; and an uncertain estimate is usually a great deal better than no estimate at all, especially where the degree of uncertainty is measurable enough to be offset by the holding of adequate stocks.

The estimate of minimum consumption, after subtraction of the quantities which it is clearly desirable to produce at home, will yield a second estimate of maximum imports at a minimum level of total

consumption. The next step will be to explore the possibility of marketing sufficient exports to pay for all these imports, allowance being made, of course, for any net balance of invisible exports over invisible imports. As far as possible, it will be arranged to cover necessary imports either by actual barter against exports, or by arrangements for reciprocal sales through a clearing house so as to obviate actual money payments.¹ Imports that can be covered in this way by exports under trading agreements with other countries will be at once included in the plan—or rather the exports needed to pay for them will be so included.

There will remain a quantity of uncovered imports, to be paid for, if they are actually brought in, either by invisible exports or by additional visible exports sold in the world market. Estimates, based on the records of previous years, with allowances for any changes in current conditions, will be made of the capacity of export markets outside the area of definite barter agreements. These will, of course, be estimates not of absolute capacity, but of varying capacity at different levels of price.

Let us assume that, to begin with, the planning authority bases its estimates on what it can reasonably expect to sell abroad at prices covering average costs in the case of each commodity. It may appear that just enough can be sold at such prices to pay for the estimated balance of uncovered imports. Or it may appear that more than this, or that less than this, can be sold. Let us consider these three possibilities separately.

If it is estimated that the requisite imports can just be paid for by exports sold at average unit cost, it has

¹See Chapter X.

next to be considered whether it will pay better to produce some of the projected imports at home and thus release overseas purchasing power for the buying of larger quantities of some other imports. It will be remembered that the initial decision was to produce at home those goods which could clearly be produced more cheaply than the exports needed to buy them overseas. Over and above these quantities there will clearly remain a doubtful margin for which the cost of importation and of home production seems to be nearly equal. It may be decided to produce this doubtful quantity, or a part of it, at home, and thus to release resources for additional purchases of other imports, not in substitution for home products, but so as to add to the total supply. The more any rise in the standard of living leads to additional demands for imports, the more will the planning authority tend to increase home production and decrease imports of those goods for which the advantages of the two courses seem to be nearly equal.

If, on the other hand, the exports that can be marketed at average cost abroad are more than enough to pay for the required imports at the standard of living taken as basis for the original plan, that is clearly a case for expanding imports so as to allow the standard of living to be raised. The figures of the original plan will then be scaled up.

Finally, if the exports that can be sold at average cost fall short of what is needed to pay for the estimated requirements for imports, two courses are open. Imports can be curtailed, by providing for larger home production of those goods whose cost of home production is lowest in relation to the cost of importation; or export prices can be lowered below average cost until

the requisite capacity to purchase imports is reached. This latter would be done by selling exports not at average cost, but either at marginal cost where it is lower than average cost, or at prices intermediate between these two points.

It is perhaps necessary to explain this difference. The average cost of a unit of goods is the total cost of the output divided by the number of units. The marginal cost is the *additional* cost involved in producing a further supply, without any allowance for those costs which have to be incurred whether this further supply is produced or not. Thus, the average cost includes a proportion of all charges—capital charges, establishment charges, rates and taxes, and every sort of “oncost”, whereas marginal cost broadly includes only cost of *additional* labour, fuel, raw material, and wear and tear of machinery.

It is clearly remunerative to produce and market additional output at any price that exceeds marginal cost, wherever this can be done without lowering the price of the previous output, unless the additional resources so employed can be used to better advantage in producing something else. It may therefore benefit the planned economy to pay for required imports by selling exports at less than average, but more than marginal, cost. The doing of this is, of course, a commonplace of present capitalist practice. It is sometimes called “export dumping”; but it is a perfectly justifiable procedure, of advantage to both producers and consumers. It has a bad name, though it is regularly done, under a planless economy, because the competition of dumped imports is liable to cause business losses and unemployment in the importing country. But in a planned economy this difficulty

will not arise; for the purchase of imports at specially low rates will not be allowed to affect the home price of the goods in question, so as to throw the programme of domestic production out of gear. If this involves the making of a profit on the sale of imports by the planned economy, this profit can be readily given back to the consumers in other ways—in remissions of taxation, for example, or in free services, or in an addition to the amount of the social dividend.

We can assume that the planning authority has drawn up, subject of course to a fairly wide margin of uncertainty, a general plan of home production, of exports, and of imports covering the main industries. This cannot be a fixed plan, but only a broad anticipation of the course of production; and it will have to be modified continually in the light of events. If, for example, there is an unexpectedly large or small harvest, or if the supply of meat is affected by drought or disease, provision will have to be made for modifying the plan to compensate for such events. If there is a change in conditions in foreign markets, so that less or more exports can be sold at the planned prices, the quantities of imports will need to be adjusted, or changes made in the prices charged for exports. These adjustments will naturally be concentrated upon those imports and exports which are not covered by forward arrangements for barter, and will only interfere with such arrangements in quite exceptional circumstances.

This will give countries which desire to sell their goods to the country working on the basis of a planned economy a strong incentive to enter into arrangements for bulk barter. For unless they do this the entire fluctuation in the planned economy's demand for imports will be concentrated upon their products;

and if the planned economy is a large importer this may introduce a large amount of instability into their economic systems. They will accordingly seek to make arrangements for the largest possible covenanted exports to the planned economy, which will exact in return a covenant to purchase a corresponding value of its exports.

In the case of Great Britain, imports will consist mainly of bulk materials and foodstuffs, and exports chiefly of manufactured goods, except for coal. It is obviously easier to arrange for bulk purchase of the former than of the latter types of goods, especially for unplanned economies in which orders for manufactured goods are placed in small amounts through a very large number of separate buyers. It will, however, be necessary for the countries selling raw materials and foodstuffs to get round this difficulty, if they want an assured market for their exports in the planned economy. They may be compelled to form associations of importers for collective buying, to organise purchases of railroad material, motor-cars, electrical machinery, ships, or dock plant by import corporations on a national scale, as well as to adjust their tariffs and quota arrangements so as to allow the entry of the required volume of goods from the planned economy. Mr. Runciman's recent trading agreements with the Scandinavian countries are a foreshadowing, on a small scale, of this type of economic arrangement.

It is evident that arrangements for mutual exchange will be made far more easily between planned economies than between a planned and a planless economy. This is not only because the planned economy will be equipped with a complete system of agencies through which bulk purchases and sales can be arranged and

requirements rationally anticipated, whereas the planless economy will not. It is also because the planned economy, possessing a planned distribution of incomes, will be in an infinitely better position for gauging demand and co-ordinating imports with the domestic supply. National planning, in a country dependent on external exchanges, can never be complete as long as the planned economy has to deal with unplanned economic systems abroad. This will be a powerful influence inducing planned economies to deal one with another, and a strong inducement for other countries largely dependent on the markets of planned economies to introduce planning themselves.

APPENDIX TO CHAPTER IX

ON DISTRIBUTION IN A PLANNED ECONOMY

UNDER the existing economic system incomes are distributed chiefly in five ways.

- (a) *As payments for work done*—wages, salaries, fees, professional royalties, and so on;
- (b) *As payments for the loan of money*—interest, by which I mean payments for the use of money, either by way of perpetual loan, as in the case of Government Consols, or, more commonly, for temporary loans of money, the principal being returnable at some future date (I do not include under this head the dividends which arise from the ownership of a share as distinct from a debenture in a joint stock concern);
- (c) *As payments for the use of land, buildings and other real things which are hired*—that is to say, rent in all its forms;
- (d) *As the surplus of receipts over costs arising in connection with the sale of goods*—profits. (Under this head I include the dividends received by shareholders in joint stock concerns, as well as the incomes accruing to the owners of private businesses);
- (e) *As “doles” from a public authority*—pensions, relief payments, subsidies to farmers or other special classes of persons, and so on. (The word “doles” is here used not in any bad sense, but in

default of a better term to indicate a payment which is made without consideration of any service in return.)

These five forms of income can be re-classified in a somewhat simpler way: as incomes from personal service (*a*); rewards for ownership of things or money (*b*), (*c*), (*d*); and payments made on account of need or of recognised claims not based on services to the productive system, or on the lending of money to public bodies (*e*).

This classification is not quite accurate; for group (*a*) includes some payments which are really on the borderline of (*d*)—for example, the fees paid to inactive directors of joint stock concerns, while (*d*) includes an element of payment for work done by the owners of businesses. But it is not necessary for my present purpose to draw precisely accurate lines of demarcation, and the classifications I have given are at least correct enough to serve as a basis for discussion.

It is not possible on the basis of the available data to arrive at any accurate quantitative classification of the national income under these various heads. In the first place, all incomes under (*e*) and some under (*b*)—interest on public debts—are derived from rates and taxes, and therefore come mainly out of other incomes. It may be said that this is not true of health and unemployment insurance payments, to the extent to which these are derived from employers' and workers' contributions; but both these contributions have become virtually taxes, whatever their original intention may have been. It should, however, be noted that, whereas the workers' contributions are directly deducted from wage-incomes, the employers' contribu-

tions do not come out of incomes, but rank as costs of production, which must be met before profits can be assessed.

Where one income is derived from others by way of taxation the incidence of this taxation on the various classes of incomes cannot be shown, so that there is no means of demonstrating in what proportions incomes under (b) and (e) ought to be deducted from the other classes of income in order to arrive at net totals. Secondly, there is no means, on the basis of the available figures, of dividing incomes under (b) from incomes under (d); for the income tax authorities classify interest and profits together.

Very roughly, however, the following percentages can be taken as indicating how *gross* incomes are distributed at present—without taking any account of the duplication which taxation involves.

$$\begin{aligned}(a) &= 54\% \\(b) + (d) &= 31\% \\(c) &= 8\% \\(e) &= 7\%\end{aligned}$$

In other words, payments for work account for rather more than half the total, without including payments for work done by owners of businesses as such; whereas payments for ownership, including work done by owners, account for nearly 40 per cent—that is (b) + (c) + (d). Payments for need account for only about 7 per cent; but this 7 per cent would be larger—perhaps 10 per cent of the net total—if the incidence of the taxes levied on other incomes were taken into account.

The aim of public policy at present is to distribute as little income as possible under (e), the rise of this form of distribution in recent years being regarded by

capitalist opinion as at best a necessary evil. The chief constituents of (e) are War Pensions, Old Age Pensions, payments to the unemployed, other forms of poor relief, and Health Insurance payments. The sum spent on War Pensions shrinks every year as the war gets more remote, and all the other payments under this head are regarded as necessary evils which it should be the aim of public policy to keep down to a minimum. Indeed this is bound to be the position as long as the money for payments under (e) has to be raised by taxing other incomes. For it is out of the question to expect tax-payers to regard sums raised by taxes in any other light.

The present system pretends to impartiality in the distribution of incomes under (a), (b), (c) and (d), and is based ostensibly on leaving this distribution to be regulated as far as possible by the "laws of supply and demand". According to the orthodox theories of economics, all incomes distributed under these four heads are regarded as incentives—incentives to work (a), incentives to save and lend (b), incentives to hire out property to others (c), incentives to bring about the employment of productive resources (d). It is supposed that the payment of incomes as incentives is somehow conducive to efficiency and to the achievement of the maximum output.

Actually this method of distribution results nowadays in very great under-use of the available productive resources. For the most part the incentives under (a), (b) and (c) cannot come into operation save to the extent to which they are set in motion by the successful working of the incentive under (d). But the incentive under (d) is not an incentive to secure the greatest possible production, but rather to achieve the

largest possible margin between money receipts and money costs; and this object may be most effectively furthered by making things scarce instead of plentiful—that is to say by restricting the scope within which the incentives under (a), (b) and (c) are allowed to operate.

Incomes under (c) and (d) arise mainly from the ownership of real things which are capable of being used for the production of goods and services. On the other hand, incomes under (b) arise from the ownership of money, which is not a real thing, but only a power to command things. Money, moreover, is unlike all other things that are capable of being owned in that it can be created out of nothing, by fiat of the State or of any authority to which the State accords this privilege. This power of creating money out of nothing has, under the present system, been partly accorded to and partly usurped by the banks.

Incomes under (a) are rewards for the exercise of qualities inseparable from those who possess them. The labourer by hand or by brain cannot be divorced from his labour. If he dies or loses his skill his power to labour perishes with him. But incomes under (b), (c) and (d) are all granted as rewards for owning things which are separable from their owners.¹ However necessary or useful the things owned may be, it does not follow that their owners are also useful, or that the rewards paid to these owners on account of their ownership are either necessary or useful. If Robin Hood steals the riches of the Sheriff of Nottingham, it does not follow that the productive value of these riches is thereby in any way impaired. Equally, if the State, on behalf of the community as a whole, takes

¹Save, of course, that part of (d) which result from personal labour by the owners of business. See above, page 247.

over the Sheriff of Nottingham's wealth, it does not follow that the productive capacity of this wealth is thereby either diminished or increased.

The power to produce wealth is a social power which arises out of the entire development of the society in which it exists. This power can be increased by individual skill or effort; but the skill and effort of individuals are exercised upon a situation which embodies the entire social heritage of the community to which they belong. When economists speak of a man's "productivity", they really mean that part of the productivity of society which is realised more or less effectively with his aid. It follows that no man really "produces" the full value which is attributed to him in economic theory, and that no other factor of production really possesses a "productivity" corresponding to that with which it is credited. Most of the product achieved by the employment of the factors of production is attributable to society: the individual is responsible only for relatively small variations in its value, according as he uses well or ill the available resources of production.

This being so, the present system of distributing the available income of society mainly in the form of incentives or rewards for work or ownership would seem to be inappropriate. The most appropriate way of distributing incomes would appear to be one which would involve at the outset a recognition of the social character of the greater part of the wealth produced, and would accordingly attribute shares in this wealth to all members of the community by virtue of their citizenship, after deducting whatever might be required for carrying on those services which they provide in common. Thus, after providing for these common

services, it would appear most desirable to distribute incomes mainly in the following ways :

- (1) By distributing to all members of the community a social dividend as their shares in the common social heritage—the only condition for the receipt of this social dividend being a proved readiness to play their part in the common tasks and duties of the whole community.
- (2) By distributing to all working members of the community smaller supplementary payments on a scale sufficient to afford such money incentives as may continue to be needed in order to get the work of society efficiently done.

If the total income distributed to all citizens in both these ways were to be large enough to purchase all the goods and services that were currently available, taxes would continue to be necessary for meeting the costs of government ; and it would also be necessary, either by taxation or in some other way, to reclaim from the individual citizens a part of their incomes in order to provide for the replacement and extension of the supply of capital goods to be used in further production. If the sums required for this purpose were not reclaimed by taxation it would be necessary to continue paying interest in order to induce the individual citizens to yield up a part of their incomes for this purpose of investment. If, however, the incomes distributed to the citizens for private spending were in total large enough to buy only the current supply of individually consumable goods and services, and not to purchase the requisite supply of capital goods and collectively consumable goods as well, there would be no need for either levying taxes or paying interest in order to

secure the requisite appropriations for capital expenditure or for the provision of collective services. If, further, the incomes paid to public employees were included in the total of incomes that just sufficed to buy the total current supply of individually consumable goods and services there would be no necessity for raising by taxation the sums needed to pay these incomes.

A well-organised society would distribute as private incomes to its members just enough to buy the entire current supply of individually consumable goods and services, and would provide in other ways for the supply of the necessary capital goods and for collective consumption. By doing this it would be able to dispense altogether with all payment of interest and, as we shall see more fully later, with all forms of taxation upon private incomes.

There are no very accurate figures relating to the amount or distribution of the national income to-day. But for my present purpose very rough estimates will suffice. At the present time income in Great Britain probably averages about £300 a year per family and about £200 a year per occupied person, at present prices of commodities and services. These figures are obviously very low in view of the enormous advance in technical productive capacity which has taken place in recent years. Naturally so, for they represent not an adequate use of the available powers of production, but a very great under-use of these powers. I shall assume, in the light of considerations urged elsewhere in this book, that, if adequate use were being made of the available means of production, income per family could be raised with very little delay to £400 a year at present prices, and before long to a considerably

higher figure. This £400 per family would correspond to £266 per occupied person.

If the system of distribution which I have been advocating were adopted, there would be only one possible basis for the allocation of the social dividend. This basis would be equality among all adults, with graduated allowances for children and young persons according to age. There are at present in the United Kingdom about fourteen million children under fifteen, about four and a half million persons between fifteen and twenty years of age, and about twenty-seven and three quarter million persons over twenty.

The figures which follow are purely illustrative, and any reader can easily scale them up or down for himself according to taste. They are intended only to show what effect the adoption of a system of social dividends at any particular scale of payment would have on the total distribution of the national income.

A social dividend averaging 10s. a week for persons under fifteen, £1 a week for persons between fifteen and twenty, and £1 10s. a week for persons over twenty, would cost in all about £2,763,000,000 a year. The net national income at present is probably in the neighbourhood of £3,500,000,000 a year.

Accordingly, if we take the existing magnitude of the total national income as a starting point, a social dividend on the scale illustrated would leave only about £740,000,000 to be expended in all other payments, including the expenses of government and the provision of additional new capital as well as of incomes under (a), (b), (c) and (d). But even at present levels of production the requirement for new capital amounts probably to about £300,000,000 a year. This would leave only £440,000,000 for all incomes under

(a), (b), (c) and (d), including incomes derived from government expenditure, without making any provision for such forms of government expenditure as are not represented either by the payment of incomes or by new capital. I am omitting payments under (e) because they would for the most part presumably disappear with the adoption of the social dividend.

We need not, however, take the existing national income for granted; for we have estimated that a full employment of productive resources would enable it to be scaled up rapidly by one-third. Let us accordingly raise our estimate of the available national income in this proportion, on the basis of adequate use of the available resources of production. This would bring net national income to a total of £4,666,000,000, leaving £1,500,000,000 available for other purposes, after allowing £400,000,000 for the provision of new capital on the extended scale required by the fuller use of productive resources.

At present total incomes (a) + (b) + (c) + (d) amount to about £3,800,000,000 gross, that is, counting twice incomes derived from taxation of other incomes, or to perhaps about £3,350,000,000 net, after eliminating duplication. It follows that if the social dividend were introduced on the scale just illustrated, all other incomes would have to be scaled down in the aggregate to considerably less than half, say to about 40 per cent of their present amounts, even on the basis of full use of productive resources.

If all incomes from rent and interest and profit (b) + (c) + (d) were completely eliminated, the gross fall in requirements would be about £1,600,000,000. But clearly this could not be done under any circumstances; for, even if all payments for ownership

ceased, some provision would have to be made for substituting payments for work done by persons who at present draw their incomes under (*d*). These incomes might change their form, but to some extent they would necessarily continue to exist as long as work continued to be paid for at all. Moreover, even in the most radical transition from one economic system to another, it would be necessary to make some provision for easing the change. I shall assume for my present purposes the scaling down of incomes under (*b*) + (*c*) + (*d*) from the *gross* total of £1,600,000,000 to a *net* total of £500,000,000.

This would leave about £1,000,000,000 for all payments under (*a*), which at present amount to about £2,200,000,000. The total number of occupied persons is about twenty-one million, including employers and independent workers as well as employees. This would give an average income from work of well under £1 a week; but 10 per cent of those occupied are under eighteen years of age and 4 per cent over sixty-five. Assume the retirement of all those over sixty-five, leaving rather over twenty million occupied persons. There would be left an average income from work of 10s. a week for those under eighteen, and £1 for those over eighteen, including both men and women, but not including any part of the £500,000,000 assigned above that might be used in making payments for work to ex-employers or independent workers or farmers.

A family consisting of a husband, a wife, and two children of such ages as to receive between them twice the average social dividend for juveniles would then have an income of £4 a week (£1 10s. + £1 10s. + £1) in social dividend *plus* £1 a week if the husband earned by work the average wage, without allowing for any

separate earning by the wife or the children. This total of £5 a week compares with an average family income at present of rather under £6 a week; but this average includes all classes, both rich and poor, and is therefore an inappropriate basis for comparison. An alternative comparison is with average earnings per male wage-earner in industry of about 55s., or per industrial wage-earner, taking both sexes together, of something between 45s. and 50s. In agriculture and in such non-industrial occupations as domestic service earnings are of course much lower than this, the agricultural labourer's wage in many counties being at present 30s. a week.

The adoption of the quite different system of distributing incomes envisaged in this chapter would of course produce very large consequences upon the money costs of production. On the average, wage and salary costs would fall to less than one half their present amount; and this fall would affect the costs of materials and instruments of production as well, owing to the reduction in the labour costs attending their manufacture. The costs at present paid out in rent, interest and profits—for in the present connection it will be simplest to treat profits as an element in costs—would have to fall to about one-third.

This may conjure up in some people's minds the idea of a Utopia in which commodities can be sold at prices corresponding to these greatly reduced costs of manufacture. This, however, could not be done. The total prices charged for all the goods and services available for consumption must, if the economic system is to be in health, balance the total incomes available for their purchase at such a level as to provide for the full use of the available productive resources. But under

the new system of distribution the greater part of the purchasing power that would be available for buying goods and services would come into existence quite apart from the process of production, in such a way as not to constitute a cost of production. If, under these circumstances, goods were sold at prices corresponding only to the remaining costs directly incurred in producing them, the whole of the available supply of goods and services would be on sale at a total price corresponding only to the sums which continued to be distributed as payments for productive effort, without any allowance being made for the purchasing power distributed as social dividend apart from the productive process. Under these circumstances it would be impossible for consumers to find anything to buy with the greater part of their incomes. A fraction of their total incomes would suffice to buy all the available goods and services, leaving the remainder of the money in their pockets absolutely without use.

Therefore, under the new system of distribution, total prices would have to equal not the surviving costs incurred in production, but these costs *plus* the purchasing power distributed in the form of social dividends. If in the aggregate the social dividend amounted to about three-fifths of the total supply of purchasing power, as in the illustration I have taken, the appropriate average price for goods and services would be two and a half times the reduced costs incurred in the course of production.

All consumers' incomes, from whatever source they are drawn, must add up to the same as the total prices of all the available consumers' goods and services, unless either goods are to remain unsold or incomes are to remain unspent.

Although the prices of goods under the new system would have to balance total consumers' incomes, the reduction in costs actually debited against the productive process is nevertheless a matter of great economic importance. For if this direct cost falls to an average of only two-fifths of the selling price, or any other fraction substantially less than unity, it can never even apparently pay best to leave employable productive resources unused. Our present system of charging the entire cost of maintaining the employable population—which has to be kept alive at some standard whether it is working or not—as a cost of production whenever it is actually employed, but not when it is out of work, results in a deceptive appearance that it is not worth while to use the available productive resources to the full. As soon as the social dividend—that is, the minimum standard at which the community has decided to support all its members—is excluded from the direct cost of production, this fallacy ceases to be even plausible.

Under the new system of distribution, prices will no longer be equal to production cost *plus* profits, but will considerably exceed the reduced costs which remain after the change of system. But of course this does not mean that the difference between the reduced cost and the selling prices will accrue to those engaged in the various industries. The entire remuneration of those engaged in production, over and above their shares in the social dividend, will have to be kept within the limits set by the residue of national income available after the amount required for the social dividend and for other collective purposes has been set aside, these other purposes including the accumulation of new capital resources and the costs of collective

services. Each industry or service will have its planned allocation of income available for distribution in the form of rewards for services rendered in the course of production. It will be able to pay out as wages and salaries only the amount available for this purpose in accordance with the planned distribution of income as a whole.

The selling price of products will not in fact accrue at all to the industries responsible for their production. For the prices of goods will be paid over by the consumers to the distributive trades, with which they come directly into contact. There will be no need for the distributive trades to make any money payment to the manufacturing trades for the goods which they supply. The distributive trades will presumably hand over their gross money receipts to the national bank, which will credit them, just as it will credit other industries, only with the sums required to meet those costs which continue to fall upon them. The balance of the total sum paid over by consumers through the distributive trades will be retained and cancelled by the national bank. The bank will be solely responsible for the issue of money to be spent by the consumers both in the form of social dividends and in that of remuneration for services rendered in the course of production—or for that matter as payments for ownership as long as such payments continue to be made. But this money will be issued only in respect of consumers' incomes, and will not be used at all for the making of intermediate payments.

It is necessary at this point to add something about the method of providing for capital accumulation, which, in a planned economy, means simply providing for the required supply of capital goods. The cost of producing such goods will of course fall in the same

way as the cost of producing other goods and services. For it will include only that part of the incomes of the producers which takes the form of remuneration for work done, and not that part which accrues to them in the form of social dividends. The national bank will therefore need to pay to the industries which produce capital goods only such sums as are required to meet their reduced costs of production.

Similarly the costs of government will be scaled down to the extent to which public employees receive their incomes in the form of social dividends instead of remuneration. The costs of government in respect of wages and salaries will fall by the amount of the social dividend payable to public employees *plus* or *minus* any change in the aggregate level of their incomes.

There will remain those expenses of government which take the form of payments other than payments on capital account or than the wages or salaries of public servants. These include at present (i) interest on the public debt, (ii) "doles" to the sick, the aged and the unemployed, (iii) payments made to outside businesses for goods or services supplied, and (iv) subsidies in aid of particular industries or services. To what extent will these costs remain in being, and how will they be met?

We may assume that (i) will be scaled down by at least two-thirds in accordance with the estimated fall in the total sum available for payment as rent, interest and profits. The need for (ii) will disappear with the institution of an adequate social dividend, though it might not disappear if a social dividend were instituted on a scale substantially lower than that which I have illustrated in this appendix. The cost of (iii) will fall, in that the Government will need to pay for its supplies

only the reduced cost of producing them under the new conditions. The need for (iv) will disappear, except where it is decided to distribute a particular service free to the consumers or at less than the reduced cost of producing it—that is, in terms of our illustration, at less than two-fifths of the price which would normally be charged for it.

No taxation will be needed to provide for any of these Government payments. The appropriate method of making them will be for the national bank to pay out the appropriate sums to or on behalf of the Government, and to include these sums in its estimate of the total purchasing power available for issue. To the extent to which the sums paid out on Government account rise or fall, there will be less income available to be paid out in other ways. For example, a decision to supply bread or any form of transport free of charge involves the reduction of consumers' personal money incomes by the amounts required to meet the prices that would otherwise have been charged for these services. Incomes must be reduced by the whole amount of the prices that would have been charged, and not merely by the reduced costs involved—that is, in terms of our illustration, by p , and not by $c = \frac{2}{5} p$. For otherwise there will be a distribution of $\frac{3}{5} p$ in purchasing power to the consumers without any equivalent supply of goods being available for purchase.

The advantages to be secured by the new system of distributing incomes are three-fold. In the first place the system affords a much closer approach to economic equality than the system of distribution which now exists—a degree sufficient to make an end of class distinctions. But it achieves this without destroying or impairing the economic incentives to individual

effort. This is possible because, given a close approach to economic equality, a far smaller monetary incentive than at present would suffice to call out superior effort. This follows from the law of the diminishing utility of money, which involves that the higher a man's income is, the less inducement to effort the offer of an additional £1 or £100 affords. The higher types of effort will thus be evoked under the new system by far smaller monetary incentives than are needed to-day.

It may, however, be argued that even if, under the new system, smaller monetary incentives will suffice to evoke the higher types of effort, the rise in the assured incomes of the poorer sections of the community will cause the smaller sums thereafter offered to them as rewards in the form of wages or salaries to be less effective as incentives than wages and salaries are to-day. This is not the case. The incentive to effort under the present system begins in effect only at the point at which the net advantages of employment outweigh those of unemployment—that is, at which the wage received for work is sufficiently in excess of the income accruing to the unemployed person to offset the unpleasantness or pleasantness of the work *minus* the pleasantness or unpleasantness of being idle. The major part of the wages now paid out is not an incentive to work well, but only to work well enough to hold the job. But under the new system the social dividend would be payable to able-bodied persons only on condition that they were ready to work, and there would have to be means whereby a man's receipt of the social dividend could be questioned on grounds of proved unwillingness to perform his part in the common service. There would be no question of any willing worker being unable to find work, or, if any such case

did arise on account of temporary economic friction, the social dividend would of course continue to be paid throughout the period of idleness. But in order to be entitled to receive the social dividend, an able-bodied citizen would have to be prepared to work up to a standard sufficient to justify his claim to share in the common heritage of society, just as now he has to work up to a standard sufficiently high to enable him to evade discharge. This is not the place to discuss what the precise conditions would be under which it would be possible for an individual, on account of proved slacking or negligence, to forfeit his right to the social dividend, or in what alternative and less eligible form society would determine to provide for the needs of those who did thus forfeit their claims. But it is clear that, even if the cases involved were few, some provision for them would have to be made; for it is Utopian to suggest that, if all the citizens were entitled to an adequate living income without any obligation to render reasonable service to the community in return, there would be under present conditions none who would fail to pull their weight.

Accordingly, the sums payable as rewards for work under the new system should be compared, as incentives to effort, not with the total wages now received, but with the difference between the wage that is just sufficient to enable a man to retain employment and the earnings that can be secured by doing better work. Evidently, if the sum available for wages and salaries under the new system enabled the remuneration for effort to be accorded at half the existing level, the incentive would be considerably greater under the new system, in spite of the rise in the total incomes accruing to the great majority of those in receipt of wages or salaries.

The second great advantage of the new system of distributing incomes is that it would make indispensable, as well as obviously desirable, the fullest possible utilisation of the available resources of production. For if the incomes accruing to consumers are to be calculated at a level which is attainable only when the available resources are fully used, and if, further, the greater part of these incomes is to be accorded to the citizens in the form of social dividends apart from the amount of work done, it will clearly never pay to leave any usable productive resources unemployed. The conception of costs which the new system of distribution involves is far more realistic and far more socially advantageous than the existing system, which often results in throwing productive resources out of use.

Thirdly, the new system of distribution possesses the advantage that it is capable of being applied by stages, so as gradually to oust the method of distributing incomes in return for actual or implied services to production by the new method of distribution according to need, in such a way that the diminution of the sums applied as incentives to effort can keep pace with the progressive abolition of class distinctions and with the growth of a new collective consciousness of fellowship in the community. If it is desired to maintain monetary incentives for a period at a higher level *than I have envisaged in this appendix*, or to ease the process of expropriation of the existing owners of property rights, the social dividend can be introduced in the first instance at a lower scale than I have here used for purposes of illustration, and then gradually increased as the need for the other forms of income distribution grows less.

CHAPTER X

THE MACHINERY OF INTERNATIONAL TRADE

THERE are six ways in which Governments at present attempt to regulate imports—tariffs, quotas, licensing systems, foreign exchange control, currency management, and State monopoly of purchases. Tariffs are designed partly for revenue, and provide an important part of the tax receipts of most countries. But they have almost always a protective as well as a purely fiscal aim. They are designed to keep out some imports rather than others, in order to assure to home producers a larger share of the home market. Sometimes they are also designed to discriminate between imports according to the countries from which they come, so as to reserve a larger share of the home market for certain favoured exporters—for example, in the case of Great Britain, to Empire as against foreign producers. Sometimes, as when a tariff war is in progress, they may be deliberately so framed as to discriminate against goods coming from a particular country.

All tariffs, whether their object is revenue or protection or discrimination, or a mixture of these, are likely to have some effect in discouraging imports; for their usual effect is to raise the prices of imported goods. Only under very exceptional circumstances does the foreigner pay the full amount of the duty. Even where an import duty is accompanied by an equivalent

excise on the home products, there is some discouragement to imports, because higher selling prices are likely to lower the total consumption of the taxed goods. The tariff is essentially a restrictive instrument, tending to reduce the volume of foreign trade.

Tariffs are, however, highly uncertain in their working. To the extent to which the imposition of a duty raises the home prices of the dutiable goods, the tariff begins to lose its effect; for importers can afford to pay the duty out of the higher price. This is one powerful reason why, when a protective duty has once been imposed, there commonly arises before long a demand that it shall be raised to a higher level. Its effect is likely to be greatest when it is first imposed, and to wear off as home prices rise, or are prevented from falling despite decreasing costs of production by its presence. The higher tariffs are, the more likely they are to raise home prices, and the more likely is their effect on the volume of imports to wear off, except where demand for a commodity is elastic enough in the home market to give home producers a sufficient inducement to keep their prices down. It is true that the home producers, even in other cases, often attempt to raise prices only as far as they think they can raise them without destroying the protective effect of the tariff. But there is no such absolute point: the effectiveness of the tariff in keeping out imports begins to diminish long before it altogether disappears.

Despite the sharp rise of tariffs in recent years, countries have found them ineffective in reducing imports to the levels which they desire. Countries which have large foreign debts to meet are under the necessity of creating an export surplus, or of defaulting; for in no other way can their debts be paid. High

tariffs have failed to create this surplus, both because they have reacted on exports as well as imports and because their effects have been largely neutralised by the higher prices charged by home producers for goods of types subject to import duties. Accordingly, countries have resorted to other methods, designed not so much to exclude particular types of imports in the interests of the home producers as to restrict total imports within the limits of the national capacity to pay. Such restriction often involves a fall in the standard of living, when the excluded imports either cannot be replaced at all, or can be replaced only by goods produced at much greater cost.

The most familiar method of restricting total imports, and at the same time stimulating exports, is the manipulation of the external value of the national currency. This may be done deliberately, by exchange operations, or it may arise naturally, as soon as a country abandons the gold standard under pressure of an adverse balance of payments. The effect of a depreciated or devalued national currency—that is, of one actually lowered in value and still subject to fluctuation, or of one definitely reduced to a lower gold value—is to increase the prices of imports in terms of the national currency, and to decrease the price of exports in terms of other currencies which have maintained their value. It is therefore to discourage imports, and to encourage exports. But these effects depend on other countries not depreciating or devaluing their currencies to an equal or greater extent. At present, the pound sterling is depreciated in relation to currencies still on an unchanged gold standard; but it has appreciated in terms of dollars and of Australian and New Zealand and Danish money—

for the degree of depreciation is greater in these countries than in Great Britain. The countries which remain on gold have suffered severely in their export trade, and have been driven to take special measures to keep out imports. But the countries whose currencies have been reduced in value have not by this means checked imports in proportion to the reduction; for there has been a good deal of shifting in the sources of their imports, which tend to be drawn more from countries whose currencies have been reduced in value as much as, or more than, their own.

Currency depreciation, like protective duties, usually produces its maximum effect at the outset; and subsequently this effect tends to wear off, unless the depreciation is pushed further and further. This is because the level of internal prices gradually readjusts itself to the changed value of the currency, and also because depreciation of one currency is likely to lead to depreciation, or other offsetting measures, elsewhere. Thus, when depreciation has once begun, it is difficult to check, because a further dose seems to be constantly needed if the initial effects are to be maintained.

An alternative method, though the two are sometimes operated together, of seeking to reduce total imports in order to improve the balance of payments is the regulation of foreign exchange. This is usually operated by centralising all foreign exchange dealings in the hands of the Central Bank, so that importers cannot get the money to pay for foreign products except from this source. The Central Bank then rations the supply of means of payment abroad according to its available supply of foreign exchange, which depends, except in the event of a foreign loan, mainly on the payments made

by foreigners for the country's exports. This amounts to an indirect rationing of imports; and it is usually accompanied by some provision for discriminating between imports according to the urgency of the need for them. It thus approaches closely to, and often actually involves, the introduction of licensing systems and of quotas for imports of particular kinds. Its main object, however, is to reduce the total volume of imports in order to improve the balance of payments, and not to discriminate among imports for protective reasons. This latter object may exist as well; but it is secondary.

Licensing systems under which imports of some or all classes may be brought in only under the sanction of a licensing authority may be instituted either in order to protect a particular home industry, or as an element in a scheme for rationing foreign exchange. The best known instance of the former type is the regulation of imports of dye-stuffs into Great Britain, which is designed to give the chemical industry the largest degree of protection against imports that is consistent with the supply of necessary dye-stuffs at tolerable prices to the textile trades. The object of the protection is in this case largely military; and the licensing system was preferred to a tariff as less likely to raise prices and so prejudice the position of exporters of textiles. The idea was that the producers of dye-stuffs would be restrained from raising prices by the constant fear that the licensing authority, on the petition of the textile trades, would allow imports to come in. Given fair and sensible administration, this method is obviously calculated to lessen the effect of protection in raising prices. But it involves very complicated working; and it has not prevented the

prices of dye-stuffs from being raised where the producers could plead the necessity of safeguarding "key" products on military grounds.

Quota systems have usually two objects—to limit total imports of a particular commodity, and to allocate the permitted imports among different supplying countries. Under the first head, the object is sometimes to reduce total consumption of a particular commodity, but far more often to increase, or at least to maintain in face of growing competition from abroad, the quantity produced at home. Countries with seriously adverse balances of payments have been compelled to use the quota method as a means of reducing consumption; but its main use has been protective, in the interests of the home producer. Under the second head, quotas enter into trade bargains made between particular countries with a view to the mutual exchange of products, as when the Scandinavian countries are induced to accept certain minimum quotas of British coal as a *quid pro quo* for their position in the British market, or when countries argue for an enlarged quota of certain imports to be granted them under a restrictive quota scheme, such as Major Elliot's bacon scheme, on the ground of their importance as markets for British goods, or of the amount of British capital invested in their industries.

The quota method is obviously far less uncertain in its effects than the tariff. It fixes a definite maximum that can be imported, usually at a level well below that of current imports; and fluctuation is thereafter possible only below this maximum. If, however, quota systems of this sort are combined with guaranteed prices to home producers at a level well above those ruling previously, curious results are apt to follow. In

1934, for example, Great Britain, having raised domestic bacon prices, was in effect insisting on paying the Danes more for a restricted quantity of bacon than they would have been able to charge in a free market for a much larger supply; for the organised Danish exporters were able to raise their prices as the British home prices rose.¹ This is obviously a most expensive way for the consumer of encouraging home production.

A quota system need not, however, be combined with a guaranteed home price. Even if it is not, the effect of restricting imports is still likely to be that home prices will rise; but they may rise to a smaller extent. Foreign sellers, provided they combine, will still be able to secure these higher prices; but the additional charge to the consumers will depend upon the severity of the restriction of imports only, and not on the height of the guaranteed price as well. This situation, in which importers will secure higher prices for a restricted supply, will continue in existence as long as imports are allowed to come in at all.

If, indeed, the intention is so to stimulate home production as to dispense with imports altogether, or to reduce them to a very small amount, the time will come when the aggregate sum paid for imports will fall sharply, however high the price per unit may be. In these cases quotas will presumably be reduced as home output can be increased; and in most cases the price will have to rise very high for home producers to be induced to expand output to the required extent, unless considerable economies can be made either in costs of production or in marketing costs. It will be possible for the authority which fixes the quotas either to reduce them regardless of the effect on domestic

¹See page 154.

prices, thus seeking to expand home production at any cost, or alternatively to make price reductions, or price stability, or at any rate moderation in the increase of home prices, the sole condition on which import quotas are to be reduced. If the authority follows the first of these policies, home production will certainly rise less than imports decrease; for the higher prices are bound to reduce consumption. If the second policy is followed, consumption need not decrease, and may increase; but only in exceptional cases will it be possible to stimulate home producers to largely increased production except by allowing higher prices to be charged. This applies especially to agricultural commodities, which do not for the most part, like manufactured goods, obey a law of increasing return as output expands.

For this reason, economies have to be sought mainly either through improvement in the quality of the home product, or through reductions in marketing costs. Production costs can be in effect reduced by better selection of varieties, by more scientific breeding and grading, and by finding better outlets for the by-products. Marketing costs can be cut down by eliminating redundant middlemen, by introducing co-operative methods of sale, and by regulating the rate of supply in order to prevent temporary gluts and shortages. But unless economies of these sorts can be made, it is impossible to secure much increase in domestic agricultural output without raising prices to the consumers.

Most quota systems are meant to raise prices to the consumers. They have mostly come into being at a time when agricultural prices have fallen to a very low level in relation to other prices, and have been still

falling: so that there has been an obvious case for raising farm prices, or at least for checking their further fall. But it is far easier to get urban consumers to accept a policy which prevents the cost of living from falling than one which positively raises it. For if the domestic consumer is prevented by quotas or other arrangements from getting the benefit of a fall in world prices, he may remain unaware of what has happened to him, or, even if he is dimly aware of it, his resentment is likely to be aroused far less than if the domestic price of a product is actually raised.

A sharp distinction needs to be drawn between those quota systems which are intended only to regulate imports in order to prevent an increase in their total quantity, or to reduce them by a quite limited amount, and those which are intended to be made more and more restrictive as domestic output can be increased, up to the point at which importation, save perhaps of a few special varieties, practically disappears. The former kind of quota can obviously be made the basis of trade bargains for the mutual exchange of goods between countries, and can be so operated as to expand as well as to contract particular classes of imports. The second type of quota, on the other hand, is purely restrictive in its effects, and is obviously inconsistent with any long-run trade bargain. It constitutes a definite threat to those countries which have been accustomed to sell their products to the country imposing the quota that the market for these products is to be progressively reduced. Accordingly, so far from inducing them to make favourable bargains for the receipt of exports, it is likely to cause them to impose retaliatory measures against the goods of the country which is shutting out their products. Many

of the agricultural quotas imposed by the food-producing countries in recent years have been of this second type, designed not merely to exclude abnormal imports, or even to reduce by a small proportion the quantities brought in, but to establish within the quota-imposing country a permanently higher level of agricultural production.

The remaining way of regulating imports into a country is by the establishment of a State monopoly of purchases. This exists, of course, for all classes of goods in Russia, where foreign trade has become completely the monopoly of the State or of institutions such as the co-operative movement acting directly under State control. But it is quite possible to establish a public monopoly of imports for particular classes of commodities without extending it over the whole field of foreign trade. Where this is done, it involves the existence of some sort of Import Board or Commission, by which alone purchases of a particular product can be made in foreign markets. Controls of this sort were of course in operation during the war over an extensive field. The British Government, through the Wheat Commission, the Sugar Commission, the War Office Contracts Department, and other agencies, entered into bulk contracts for the supply of necessary commodities—as when it purchased Australian wheat or wool—and concentrated the entire home purchase of these classes of imports in the hands of a single body. It has often been suggested in recent years that this system of bulk purchase through Import Boards operating with a monopoly should be reintroduced as a means of regulating the supply of imports and of placing them on the home market at controlled prices. There has also been much discussion of the question whether

Boards established for this purpose should also be empowered or required to purchase the entire home supply of the commodity in question. For example, if an Import Board were established for wool or wheat, ought it to handle the home output of the commodity as well as the imports?

There may be some doubt concerning the answer to this question if it is proposed to establish an Import Board in a country working on a basis of an unplanned economy; but to the extent to which a planned economy is introduced, it is clearly appropriate to have a single body in a position to handle the entire supply. Even if the home product and the imports were to be handled by two different agencies, these two bodies would clearly have to work very closely together and to pursue in fact a common policy, not only in the sense that the quantity of imports would have to be regulated in relation to the quantity produced at home, but also in the sense that the home and the imported products would have to be sold at uniform prices, allowing for any differences in quality.

Under these conditions it is clearly desirable to place in the hands of the body handling imports the marketing of the home supply as well. Presumably the policy which would be followed would be that of purchasing the home product at a price fixed in advance so as to offer to the home producer a remuneration sufficient to induce him, subject to the vagaries of nature, to produce that output which it was decided to aim at in accordance with the plan. This would leave the Import Board to arrange in the first place for the import of the minimum estimated as likely to be required over and above the amount produced at home, and thereafter to purchase additional imports

in order to counterbalance any deficiency of actual home production in relation to the estimated amount, or, on the other hand, to reduce imports if the actual home production exceeded the estimated quantity. But over and above the minimum there would be a further importation that might or might not be required according to the actual outcome of the domestic harvest. For the minimum which would be certainly required, the Import Board would be in a position to enter into bulk contracts with the supplying countries, whereas for any quantity above this minimum it would have to be in a position to vary its demand in accordance with changing conditions, subject, of course, to the power, if its imports exceeded the required quantity in any given period, to hold the excess in stock and reduce its purchases in the next accounting period.

Obviously the minimum quantities which would be certain to be required by the importing country would furnish the basis for reciprocal arrangements for the exchange of goods with other countries. It would be possible to guarantee, up to the total amount of the minimum required, to take supplies from this or that producing area as part of a bargain under which the exporting country would take in exchange certain quantities of British coal or manufactured goods. But this method could not be applied in quite the same way to the excess over the minimum; and for this there would have to be shorter-term bargains or straightforward purchases in the world market without any bargaining about reciprocal sales.

Having acquired in one or other of these ways both the whole of the home output and the requisite quantity of imports, the Import Board would be in a position to fix its selling price to the immediate consumers of

the product. These would in most cases be traders, who would then use the product in question as a basis for further manufacture. The Import Board would have acquired its supplies at varying prices. The home supply would have been bought at guaranteed prices fixed in advance at a level designed to give the planned degree of incentive to the home producers. A part of the imports would have been bought at bulk prices fixed in advance in accordance with the terms of special trade bargains with exporting countries, while the residue of the imports would have been purchased at prevailing world prices, which might be either higher or lower than the bulk prices fixed in advance for covenanted supplies. Presumably the selling price charged by the Import Board to the home consumers would be based on averaging all these prices, so as to leave only a sufficient surplus for the building up of a reserve fund to cover future risks. The incentive offered to the domestic producers, where it involved a rise in the price of the domestic output above the world level, would thus be spread over the whole of the sales of imported and home produce alike; and any divergence between the bulk prices at which covenanted imports were acquired, and the current world prices at which supplementary supplies were bought, would be similarly averaged—account being taken in all cases, of course, of any differences in quality.

By this method it would be possible to avoid the danger that any raising of the prices charged by domestic producers would result in an unnecessary rise in the prices paid for imports. Under the existing Bacon Scheme, for example, the home producer is offered a higher price for his output, and at the same time the quantity of imports is limited by means of a

quota. The effect of this is that the foreign supplier—or in some cases the merchant importer—is able to charge for the reduced quantity which he sends in a price which rises in accordance with the advance in the price of the home product; and the consumer is therefore called upon to pay, for the whole quantity consumed, a price corresponding to the additional incentive offered to the home producer in respect of only a part of this quantity. An Import Board with a monopoly of purchase from abroad would be able to buy at prices unaffected by conditions in the home market, and the home consumer would thus get his supplies more cheaply without any diminution in the price incentive afforded to the domestic producer. To be sure, the foreign exporters would object much more strongly to a quota system worked in this way through an Import Board than they do to the quota schemes which at present exist—if the intention were to use the system as a means of progressively reducing imports. If, however, the object were rather to increase consumption, and to import as much as could be paid for with exports, their greater short-run objection to a scheme which offered them immediately a less favourable price would be more than offset by their prospect of retaining the market in the future. Indeed, apart from the threat that the market may be progressively curtailed, and even in some cases destroyed altogether in the long run, the exporters have often no reason to object at all to the existing quota schemes. For these enable the exporters at the same time to command a high selling price for a reduced quantity of goods and, because of this reduction of quantity, to “squeeze” the competing producers in their own country. The present quota schemes are exceedingly favourable to the middleman as well as

exceedingly unfavourable to the consumer and to the actual producers in the exporting countries, except where these producers are themselves so combined as to be able to appropriate the middleman's profits.

As we have seen, all the methods of controlling foreign trade which were described in the opening pages of this chapter have hitherto been applied in a purely restrictive way. Indeed, all except the last—the method of purchase through public Import Boards—are in their essence restrictive. There is, however, no reason why Import Boards should be restrictive at all. They can be used to control imports not only for the purpose of diminishing them, but also for that of expanding them either for the increase of domestic consumption or by way of substitution for a home industry which it is thought desirable to contract. The basis of a planned economy is the allocation of all the available productive resources to those uses which seem to offer the best prospects of advantage to the consumers, in such a way as to avoid all unemployment of resources above the inevitable minimum which arises out of economic friction. A system which is thus planned on a basis of full utilisation of resources has no incentive to diminish imports in order to extend home employment. Its sole consideration is to establish an adequate balance between imports and exports, and to encourage international trade wherever there is a prospect of using labour to better advantage in producing goods to be exchanged for imports than in supplying directly the needs of the domestic consumers.

Accordingly, under a planned economic system there will be no question of pursuing a commercial policy designed to increase employment, or of falling into the fallacious notion that in the long run employment can

be increased by limiting foreign competition. Under the plan it will be decided that it is desirable to expand the domestic production of certain classes of goods and services, and therefore to devote to them a larger proportion of the available supply of labour and other productive resources. Any such decision will involve a parallel decision to produce less of something else and to devote less productive resources to use in some other branch of industry. A planless economy practically never deliberately and consciously decides to contract production or employment in a particular industry, though it may of course take fiscal decisions which in fact involve these consequences. A planned economy, on the other hand, will have no objection whatever to deliberately restricting the scope of one industry in order to expand that of another; for *ex hypothesi* there will be no question of causing more than fractional and temporary unemployment of productive resources by any such transference. A planned economy will thus be free from the bias against imports which has dominated for centuries the commercial policy of most industrial nations.

Under these conditions the extent to which foreign trade will actually be carried will depend on the degree of international specialisation which is in fact desirable under modern conditions of production—and also of course on the policies pursued by other countries. Let us assume for the moment that all countries have adopted a system of planning and have discarded therewith the notion of enriching themselves at one another's expense by the exclusion of imports, adopting instead the rational notion that exchange of products is to be desired wherever the consumers can be supplied with a higher standard of living as a result of

international exchange than by production directly for home use. On this assumption the character and volume of foreign trade will depend entirely on the economic advantages of specialisation. There will be no question of one country producing wheat at a price much higher than it can be acquired at by imports, while another country produces manufactured commodities for a limited domestic market at much higher costs than it could get them for in exchange for its wheat. In short, the economics of a planned world would resemble in the character and volume of international trade the imaginary world of the *laissez-faire* economists. But this result would come about not by letting things alone, but through the interaction of a number of nationally planned systems organising trade on a basis of mutual exchange.

The question is, how much foreign trade would actually take place if this perfectly rational system came into being. The answer, I think, must be that the foreign trade of a planned world would not by any means reproduce the characteristics of foreign trade as it existed in the nineteenth century. Under nineteenth-century conditions Great Britain, by virtue of her long lead in the Industrial Revolution and of the preponderant importance of coal as a basis for industrial production, held over a wide part of the industrial field a position of virtual monopoly which was further strengthened by her position as the sole large exporter of capital. Great Britain could obviously produce a very wide range of manufactured commodities, among which textile goods occupied the leading place, followed by capital goods and coal, at costs very much lower than were within the reach of any other country. But Great Britain could do this only by absorbing in the

production of these goods a very large proportion of her available supply of productive resources, and thereby leaving less to be used in making other things. It follows that, as her production of textiles and metal goods and coal for the world market increased, she was bound to depend more and more on foreign countries for the supply both of foodstuffs and of raw materials, including not only those which could not for natural reasons be produced at home, but also those for which she could not spare labour and other productive resources, being able to find more remunerative employment for them in other fields. British industrial specialisation and the British advantage in terms of cost and quality of product thus created as their necessary concomitant agricultural specialisation in many other parts of the world; and this agricultural specialisation was directed especially to supplying the needs of the British market. In the nineteenth century this actual situation was studied by the economists and raised to the dignity of a theory of "comparative advantages"; and it was widely assumed that the further course of economic development would only confirm and strengthen the tendencies which were manifested in the period immediately following the Industrial Revolution.

In point of fact, however, this situation was inherently unstable. A large part of the British advantage in the making of highly developed industrial products was not a natural and inimitable advantage, but one that depended on Great Britain having been first in the field. It was quite possible for other countries, after an initial period during which their costs were bound to be higher than the British costs, to establish within their own territories many of the industries in which Great Britain excelled, and thereafter to compete

with British industries on equal terms. The development of alternative sources of power, including electricity derived from water and also oil, further undermined the British monopoly; and the superior standard of living which Great Britain was able, especially because of her monopolistic position, to maintain, became in due course a help to other countries in competing with British industries on a basis of lower labour costs. No one who dispassionately considers the position to-day can imagine that there is any likelihood that in a completely free trade world, or in a world of completely rational economic bargains between planned economies, the Lancashire cotton industry would regain anything like the position of pre-eminence which it occupied in the nineteenth century, or even that the British woollen industry or the British coal industry or the British shipbuilding industry or the British engineering industry would have anything like so clear a field in supplying the world market as it used to do. Great Britain is still a highly suitable country for the manufacture of industrial products, but she is no longer an obviously more suitable or better equipped country than a good number of others. She can only hope, under the conditions of the twentieth century, for a substantial share in the world market, and not for a situation in which her industrialists are able to pick and choose what they are best pleased to produce for export, leaving other countries to take the residue of industries which it is not worth their while to attempt to develop.

Under these changed conditions of comparative advantage for different branches of production it seems clear that an increasing number of countries will produce at home the greater part of their basic

industrial requirements, and would do so even if all protective tariffs and other methods of influencing the direction of domestic production were swept away. Moreover, even in the finishing trades, which work up the products of the basic industries for the use of the consumers, there is nowadays, as between large and developed countries, usually no great difference in suitability; and it is probable that an increasing number of countries would, even under free trade conditions, nowadays largely supply their own domestic markets with products of these types. The chief fields that would remain open for international trade under these conditions would be in the first place the exchange of products between all these developed industrial countries on the one hand and a second group of countries specialised for the production of foodstuffs and raw materials on the other, and in the second place an export of specialised commodities from the larger countries to those small countries which could not hope to possess domestic markets large enough to produce such goods at reasonable costs. This would involve that these smaller countries would have to confine themselves to a limited range of specialised production designed largely for export, and would have to make terms with the larger countries for the receipt of their exports in exchange for the far wider diversity of products which these larger countries would be in a position to supply.

World trade, under these conditions, is capable of reaching very large dimensions. But it is unlikely that any great industrial country will ever again come to export so large proportion of its total output as Great Britain was in the habit of exporting in the course of the nineteenth century. A predominantly agricultural country, or one engaged mainly in producing primary

raw materials such as tin or rubber, may indeed export a still larger proportion of its total output than Great Britain has ever done, receiving in exchange imported manufactures and other specialised goods. But all the great industrialised countries will have to look to a much greater extent than Great Britain has done in the past to their own domestic markets for the consumption of their own manufactured output.

If, however, under these changed conditions of world trade, the great manufacturing countries are to be in a position to maintain and improve their standards of life, they must still continue to sell sufficient quantities of exports to pay for necessary imports of foodstuffs and raw materials; and, on the other hand, if the countries which produce mainly foodstuffs and raw materials are to enjoy a satisfactory standard of living and to expand in population, they must find markets for an increasing quantity of their products in the industrialised countries. They cannot hope to do this unless they are prepared to receive a corresponding value of imports from these countries; and accordingly they must, if they wish to maintain their position as agricultural exporters, refrain from developing in their own territories industries designed to replace most of the products which they now receive from abroad. They will not, however, be content to do this unless they are able to demand for their exports of foodstuffs and raw materials prices which yield a standard of living satisfactory in comparison with that which is enjoyed by the populations of the industrial countries. For otherwise the pressure from their own peoples for the development of protected industries will be too strong to be resisted. In other words, agricultural and industrial prices must reach such a balance as will make the exchange fair

to both parties in terms of the standards of living which it enables the exchanging countries to enjoy.

One great difficulty in the way of reaching this satisfactory basis for the exchange of products between industrial and agricultural economies is the tendency, as total productive capacity rises, for the proportion of total income spent on foodstuffs to fall. The demand for wheat and other cereals is notably inelastic, and in recent years the demand for meat and other primary foodstuffs has also shown very little elasticity. But at the same time, improved methods of production in agriculture have enabled a largely increased quantity of agricultural commodities to be produced, or alternatively have reduced the amount of labour and other resources needed for the production of a given supply. Under these conditions of rising productivity, combined with inelastic demand, agricultural prices have inevitably fallen very sharply in relation to industrial prices; and if these tendencies continue in being the outlook for the agricultural countries is obviously very serious. For they will be faced at the same time with rising productivity and with either a falling market or at least a market expanding far less rapidly than in the past. It has to be remembered that the agricultural countries have built up their expansion of output during the past half century largely with the aid of capital borrowed from abroad, so that they are now faced with a considerable interest burden upon these borrowings. As long as they could look forward to a rapid expansion of markets for their products, this burden of interest did not seem to matter, for it could be met out of the increased quantity of produce sold; or rather, the debt did not actually need to be paid at all, for as long as the prospect of expansion continued

fresh loans were continually being made. But nowadays the interest burden wears a very different aspect in face of the sharp fall in the rate of expansion of demand for agricultural products and of the consequent contraction of their prices in terms of industrial goods. This is one of the main factors behind the virtual cessation of foreign lending, which has greatly aggravated the economic distresses of the agricultural countries.

There is, moreover, a second very important reason for uneasiness in the countries which have depended largely on agricultural exports for the means of life. Birth-rates have fallen sharply in the Western countries which have been the principal consumers of imported foodstuffs; and the time is approaching when, unless the existing trends are very sharply reversed, the populations of these importing countries will begin steadily and rapidly to fall. It has been estimated, for example, that, if fertility rates were to remain unchanged, the population of Great Britain, after reaching 45,000,000 in 1936, would fall to less than 44,000,000 in 1946, to little over 41,000,000 in 1956, to 37,000,000 in 1966, and to 32,700,000 in 1976.¹ Obviously, this tendency is likely to involve a positive decline in the demand for such primary foodstuffs as wheat; and it therefore threatens the future of the wheat-exporting countries very seriously indeed. Unless these countries can find a more diversified basis for their national economies, they are threatened with positive disaster in the not distant future. On the other hand, the producers of agricultural materials are menaced to a far smaller extent; for the demand for their products is much more expansible as the standard of living rises with increased productive power over the world as a

¹ Quoted from G. C. Leybourne, in *Sociological Review*, April, 1930.

whole, and is therefore far less dependent on the absolute size of the populations of the industrial countries.

How far is this declining tendency in food consumption to be regarded as permanent? It is unlikely that the population trends in the chief importing countries will be reversed in the near future. Moreover, it is undoubtedly true that as the standard of living rises the proportion of total income spent on food is likely to fall, and that therefore agriculture will be bound to employ a smaller proportion of the world's total productive resources, save to the extent to which there is a compensating expansion in the output of agricultural raw materials as distinguished from foodstuffs. In face of these tendencies it is obviously absurd to look forward to an increase in total agricultural employment; and to the extent to which any country adopts a "back to the land" movement, this is bound to aggravate the contraction of agricultural employment elsewhere. Moreover, even where countries decide to expand their domestic production of foodstuffs, it is in most cases very unlikely that they will be able by doing so to expand agricultural employment, unless they deliberately involve themselves in producing at unnecessarily high costs. In the industrialised countries increased agricultural production, if it is to be carried out on an economic basis, will be certain to involve for the most part large productive units based on greater mechanisation and on greater economy in the use of labour. It may well be that even a considerable increase in agricultural output will be found to have been brought about without any increase at all, or perhaps with an actual diminution, of agricultural employment. It follows that any attempt to bring about increased agricultural employment will involve a far more than

proportionate increase in output, and will thus react to a far more than proportionate extent on the prospects of those countries which are at present specialised for the production of agricultural exports.

There are, however, certain other considerations to be borne in mind in estimating the outlook for the agricultural countries. The failure of the demand for foodstuffs to expand in recent years is due only in part to a change in the voluntary habits of consumers in the spending of their incomes. It is also partly the result of widespread unemployment, which has reduced the total purchasing power of consumers below what is possible on the basis of present productive capacity. If productive resources were brought back into full employment, there would be a very large expansion in the total demand for foodstuffs, even though this total demand would continue to represent a decreasing proportion of total consumers' income. Naturally this increased demand would be spread very unevenly over the different classes of foodstuffs. There would be almost no expansion in the demand for wheat in the Western Countries, even if their populations did not fall;¹ but there would be a very large expansion in the demand for fruit, poultry, eggs, butter and milk, and probably a substantial increase in the demand for most classes of meat. Moreover, the expansion in these types of demand could occur even in face of a sharp fall in population; for most people, even in the more advanced

¹This situation might be altered if the countries of the East were able to become large-scale consumers of wheat; but it seems highly improbable that the Eastern countries could afford to import wheat on any large scale. A rise in their standard of life would require large imports of capital goods from the more advanced industrial countries; but they could hardly pay both for these imports of capital goods and for large imports of food without incurring an excessive burden of foreign debt.

countries, still do not get nearly enough of these kinds of food. There would be amply sufficient room for the agricultural countries, taken as a whole, to expand within the limits set by this increase in consumers' demand, though there would be for certain countries a serious problem of transference from one form of agricultural production to another. Canada, for example, would no longer be able to rely to the same extent as in recent decades on the steady expansion of her sales of wheat in the world market. To the extent to which she remained a predominantly agricultural country, she would have to seek a wider basis for her farming; and to the extent to which this involved a total contraction in her agricultural exports, she might be compelled to proceed somewhat further along the road of industrialisation than she would otherwise need to do.

There is a very strong case, in the interests of the world as a whole, both for expanding to the furthest possible point the total demand for foodstuffs and for easing the conditions of transition in those countries which find themselves compelled to alter the basis of their agricultural economics. To the extent to which this is not done, depression in the food-producing countries is bound to react on the export trades of the more industrialised parts of the world—to say nothing of the loss of invested capital which the sheer inability of the agricultural countries to meet their debt burdens would involve. This is a strong reason why the industrialised countries should think twice before taking unilateral measures for the expansion of their agricultural output in such ways as to diminish their imports from the agricultural countries. But clearly the industrial countries can only afford to go on importing to the extent to which they are able to

find markets for their exports; and the agricultural countries are accordingly under a corresponding necessity of thinking twice before they decide to extend the range of their manufacturing production, at the cost of further limiting the field open to their agricultural exports. On the basis of both these limiting considerations it ought to be possible for the agricultural and the industrial countries to strike mutually advantageous commercial bargains for the exchange of products; and it seems clear that they could do this far more easily and on a far more rational basis if the exchange could be organised between planned economies able to strike an assured balance between imports and domestic production, subject only to the vagaries of nature. In default of some attempt to plan imports and exports in this way between the agricultural and the industrial countries, there is very grave danger that both groups, in their attempts to solve their problems, will resort to inconsistent and self-destructive policies. The industrial countries will simultaneously try to limit their imports of foodstuffs by expanding agricultural production and to sell more manufactures abroad, while the agricultural countries will attempt to expand their agricultural sales and at the same time to build up productive industries on a non-economic basis on account of their fear of a contraction of their agricultural exports. Both groups of countries will try to have it both ways. For the essence of an unplanned economy is that it does conceal the impossibility of having things both ways. Planned economies, on the other hand, have to decide their policies with their eyes open; and there is no possibility for them of closing their eyes to the inconsistency of aim which is a common feature of the commercial policies of to-day.

CHAPTER XI

THE MACHINERY OF NATIONAL PLANNING

It can be assumed that, if any system of planning is adopted in an advanced industrial country such as Great Britain, it will be introduced by stages and will not come suddenly and completely into operation over the entire field of production. This must be so under whatever circumstances planning comes about. For any comprehensive plan is bound to involve the creation of a large number of separate authorities, each competent to draft a plan or to control its working within its own special field. All these bodies could not, even by the most determined Government, be brought simultaneously into effective existence, and no central planning authority could hope to carry through anything like a comprehensive national plan without their aid.

In this chapter, which is concerned with the machinery of planning, it seems best to begin by considering in very broad outline what the complete structure of a system of planned production would have to be in an advanced industrial community, and to defer consideration of the stages by which such a structure could be brought into being. In adopting this method I am far from suggesting that the precise structure of a planned economy can be foreseen; for there is bound to be a great deal of trial and error in

the process of establishing a planned system of production. But we can at least hope to outline the types of planning and controlling agencies that are bound to be required, whatever their exact constitution and relationships may be.

In the first place, then, there will have to be for each separate industry or branch of production a single comprehensive authority co-ordinating all the productive units concerned, either in the whole country or for each region if a regional system of control is preferred. This authority will need to be in a position to supervise the productive activities of all the separate establishments or productive units falling within its sphere. It will need to have an exact knowledge of the productive capacity of each plant or unit of production and of its suitability for different uses, of its costs, and the probable effect upon them of rising or falling output, of the adequacy of its available supply of manual, technical and administrative personnel, of the condition of its fixed plant and of its probable need for capital replacements as well as for extensions, of the nature of its existing markets and sources of supply, and, last but not least, of its financial position, if the separate units of production retain any financial independence of the co-ordinating authority for the service concerned.

This co-ordinating authority may be in any particular industry either the responsible controlling body for all the plants under its supervision, as happens now in the case of a centralised capitalist trust, or it may do no more than supervise in certain respects the activities of otherwise independent or autonomous concerns. If it occupies the former position, it will clearly be responsible, subject to such orders as it

may receive from a still wider co-ordinating authority, for deciding what goods are to be produced or services rendered by the units under its control. If, on the other hand, it has to deal with partly independent concerns, some discretion may be left to each of these in deciding what to produce, especially where it is engaged in supplying a local market. If the co-ordinating authority is in the nature of a trust, it will presumably have sole responsibility for sales and marketing, whatever subordinate powers it may decide to delegate to the managements of the separate productive units. If, on the other hand, it is rather in the nature of a cartel co-ordinating semi-independent or autonomous concerns, its responsibility for marketing may be limited to supervising sales made by the separate managements, or it may itself market some but not all of the goods produced.

Whatever the co-ordinating authority's relationship to the separate plants or regions may be in these respects, it will need to be given enough power over them to enable it to regulate their output of all goods and services the supply of which vitally affects the national plan; and it will need also to possess wide powers of inspection and of supervision in cases of inefficiency. It will need power to remove inefficient or unsatisfactory managers and technical officials, to institute inquiries into the reasons for costs which appear excessively high, and to insist that the constituent establishments shall work in accordance with the requirements of the national plan. It will thus be in effect the body responsible to the community and to the higher planning authorities above itself for the satisfactory execution of that part of the national plan which falls within its scope.

This authority will clearly be the appropriate body to make the first draft of the plan for its own particular branch of production. On the basis of the available productive resources, of its experience of the conditions of demand, and of any special requisitions made to it by other agencies of the national plan, it will be in a position to draw up proposals for the output of the next year or of the next planning period—subject, of course, to the necessity of producing revised estimates at any time in the light of changing conditions affecting either supply or demand. The starting point for these estimates will naturally be the existing level of demand as measured by the experience of past sales or public requisitions. Account will have to be taken of any known factors likely to cause an increase or decrease of demand at the current prices; and in this field the sectional planning authority for each industry or service will need to be provided with advance estimates of requirements by its principal customers—for example, by the authorities responsible for the control of retail trade and by any public agencies likely to make important requisitions for goods during the next planning period. Or, if the industry in question is producing intermediate or capital goods and not consumers' goods, it will need to be supplied with estimates of prospective orders by the industries likely to make the chief demands upon it for such products. On this basis it will be possible to make an estimate of required output, assuming unchanged prices and an unchanged level of total consumers' incomes. In relation to this estimate the sectional authority will next have to show how far its available productive resources fall short of or exceed what will be required for production at this level, and whether at

this level of output and prices it is likely to show a surplus or a deficit on its financial working. It will have to show, further, what will be its need, assuming this level of output, for capital renewals or extensions or for the engagement of additional labour.

But this will not be all; for the sectional authority for each industry will have to go on to show what would be the effects on its costs of reducing output below the estimated level thus arrived at or of increasing it; and in the latter case what its additional requirements of capital goods and labour would be likely to be for any given increase of production. It would have to show at what prices, higher or lower, it could afford to sell a larger or smaller output, and it would fall within its competence to make proposals for having the level of its planned output increased and the necessary appropriations made to enable this to be done. Of course such an increased output could be sold only if either selling prices were reduced or total consumers' incomes increased. For we have already taken account in the estimates submitted by leading customers and by Government agencies of anticipated changes in the direction of demand for one product as against another at an unchanged level of prices and incomes. In putting forward proposals for increased output it would be necessary for the sectional authority, again in close touch with its leading customers, to make an estimate of the elasticity of demand for the various products of which it proposed to increase the supply.

All these things are of course regularly done, as far as conditions allow, by any existing capitalist trust. But whereas any such trust, having made these calculations, thereafter reaches its own decisions about output and prices without reference to any other

authority, with a view to securing maximum profit, under a planned economy each sectional controlling body would only make a draft plan which would have thereafter, in conjunction with all the sectional plans of other parallel authorities, to be considered and approved or amended by some superior authority responsible for the co-ordinated planning of production as a whole. The draft plan would thus not be necessarily the plan which the sectional authority would be called upon to carry out. It would be only a preliminary proposal, on the basis of which the superior planning authorities would proceed to work out the most desirable allocation of the available productive resources.

Let us turn now to consider the far more difficult question of the machinery of planning as a whole. We are confronted first of all with the question whether there is to be a single planning authority for the economy in general, directly co-ordinating the work of national authorities for each separate industry or service, or whether planning is to be organised largely on a regional basis, so that the co-ordination of the separate industries and services will take place to a large extent regionally, and the national planning authority have as its function the co-ordination of inter-industrial regional rather than of national industrial plans.

It is natural in this connection to look to the experience of Russia, as the one country which has hitherto attempted to introduce a comprehensive national plan. Up to 1934 planning and the supervision of the execution of the plan were mainly in the hands of all-Russian authorities acting over the entire area of the Soviet Union. There were some industries and services which, being regarded as of an essentially

regional or local character, were left to be supervised by regional or local controlling authorities. But all the major industries, covering by far the greater part of the field, were organised under central direction and were responsible to an all-Russian authority which was attempting to carry out a comprehensive national plan for the Soviet Union as a whole. In 1934 an alteration of this system was announced. The drawing up of the general plan of production was to remain an all-Russian function, but the supervision and execution of the plan were to become thenceforward regional functions under the control of the separate constituent Republics of the U.S.S.R. This change did not apply to agriculture, which was retained for the time being under centralised control, or to transport; but it was applied over the whole field of industrial production. The ground given for the change was that the attempt to centralise control in the hands of all-Russian bodies had led to a great amount of delay and avoidable red tape and bureaucracy, and that supervision over the great distances of Russian territory could not be effectively maintained. It is too soon yet to say how this change of policy will be applied, or what its results will be. But it indicates that the complexity of the problem of planning has come home to the Russian authorities, and that the need for a more elastic and quickly acting form of control is now appreciated.

It does not, however, follow that, because regional control of planning is appropriate under Russian conditions, the same is true of the smaller and more industrialised countries of Western Europe. In a country the size of Great Britain national as opposed to regional planning need not involve delays at all

comparable with those which a centralised system is bound to involve under Russian conditions. Moreover, in the more highly industrialised countries many industries have already achieved a high degree of national organisation and are essentially supplying national or international rather than local or regional markets, so that any attempt to break them up into regional units would involve the danger that these units would so act in relation one to another as to defeat the objects of the national plan. In Great Britain at any rate, it would be indispensable to have a national controlling authority not only for the railways, the Post Office, and other essentially national services, but also at the very least for certain of the major industries, including coal-mining, iron and steel, and engineering and ship-building, as well as for the more localised but essentially national textile industries, such as cotton and wool. However much decentralisation might be introduced into a British plan, it would be impossible to break up these major industries into regional units, so as to place them under the supervision of regional co-ordinating authorities entitled to plan their output without regard to what was being done by other regions.

There are, however, other industries, of which building is the outstanding example, to which the same conditions do not apply. The work of the building industry is so closely bound up with the civic development of each region that it would be out of the question to divorce regional planning of building operations from regional control over urban development. The building of houses, schools, and public institutions must be carried on as an integral part of town and regional planning in all their various aspects.

Certain branches of agriculture, notably the production of milk and market gardening, also work predominantly for a local, or at least a regional, market. And even services such as the supply of electricity and still more gas and water, while they may require co-ordination upon a national scale, obviously need also to be brought into close relation to the civic administration of the separate regions and localities within the country.

Under these conditions it will be necessary in Great Britain, or any other fairly small but highly industrialised country, to make some sort of compromise between the regional and the centralised organisation of a planned economy. I think there will have to be for every industry a national authority able to draw up and to supervise the execution of a plan of production over the entire national field. But the relations of these sectional planning authorities to the wider co-ordinating bodies to which their draft plans will have to be submitted for approval will not be the same in all cases. Probably the coal industry and the steel industry, as well as the railway service and the Post Office, will submit their plans directly to a co-ordinating national authority for approval, without needing to secure in the first instance the approval or comment of the regional co-ordinating authorities. On the other hand, the national plan for building or for any other industry of a more localised character will probably be made up largely on the basis of regional plans worked out in conjunction with the co-ordinating regional authorities, and will be submitted to the national co-ordinating authority with the comments of these regional bodies; and at the same time the co-ordinating regional bodies will have power to submit

plans of their own either agreeing with or as alternatives to the plans submitted by the sectional industrial agencies.

This question of national *versus* regional organisation and control is the more difficult because it can by no means be discussed solely from the standpoint of the national planning of production. How much power can be accorded in the field of planning to regional as against national bodies depends essentially on the form and strength of regional governing agencies for other purposes besides that of drawing up and executing the national plan. If Great Britain continues to be governed locally by a medley of relatively small local authorities, none of them covering a sufficiently wide or inclusive field to work in satisfactorily with a planned regional system of production, the main power both in drawing up and in executing a national plan is bound to be centralised in the hands of a single national authority. If, on the other hand, some form of regional government is introduced to co-ordinate the existing smaller local authorities and to relieve the congestion of work at the centre, these regional authorities will clearly be in a position to play a far more active part in the working out and supervision of a national plan than can possibly be played by local government agencies in their present unsatisfactory condition. As I have stated earlier in this book, I greatly hope that the evolution of a satisfactory form of regional authority will make possible a large measure of decentralisation in the working of a planned economy. But even so, the degree of decentralisation in a small country such as Great Britain is bound to be far less than is appropriate over the huge territory of the Soviet Union, or than would be appropriate in, say, the United States.

Accordingly, it seems best for our purpose, in outlining the general structure of planning machinery, to work on the basis of co-ordination on a national scale—that is, to assume the existence of national sectional authorities responsible for the supervision of each industry or service, and to provide for the co-ordination of the plans submitted by these sectional authorities on a national basis. Having done this, we can go on to discuss rather more fully the possibilities of regional decentralisation within such a structure of national planning.

We have, then, to provide for a national authority or authorities, to which the draft plans prepared by the various sectional authorities can be submitted for approval or amendment. We have discussed in earlier chapters the principles which would have to guide the national authority in making its decisions; and we are concerned here not with these principles but rather with the form of authority that it would be desirable to create. It is necessary at this point to distinguish three functions. The first is that of estimating, as a check upon the estimates formed by the various sectional authorities, the national requirements in the various fields of production, and thus of framing in outline a draft national plan for all industries, with which the various sectional drafts can then be compared. The second function is that of actually deciding, in the light both of this national draft and of the sectional drafts, what the national plan of production is to be, and thereafter of authorising alterations in it in accordance with changing needs or errors in its execution. The third function is that of supervising the carrying out of the plan from the standpoint of ensuring the highest possible efficiency both in the

conduct of the sectional authorities and in their relations one with another. It may turn out that these three functions will require the creation of three different types of machinery.

The first function obviously demands the existence of a central planning department thoroughly equipped with the fullest statistics that the various industries and services, trading agencies, and Government departments can supply, and armed with its own staff of technical experts capable of interpreting and anticipating trends in productive organisation and in the structure of demand. This points to the creation of a National Planning Commission rather as an advisory body than with any executive powers. The Commission, in order to do its work effectively, will have, indeed, to possess power to require the fullest disclosure of information by every agency responsible for the execution of any part of the plan. It will have to receive well ahead all draft plans produced by the various sectional authorities and to make its comments upon them, and it will have to be equipped with a staff of visiting experts who can go round and see what is actually happening in every branch of production. In other words, the National Planning Commission would be an expert body, but as an expert body it would be called upon rather to advise than to give actual orders. It would prepare, side by side with the draft plans drawn up by the sectional agencies, a draft production plan of its own; but it would have no power to enforce its own plan as against those of the sectional bodies, but only the right to submit its proposals and comments to some other body of a more representative character, with which the power of decision would rest.

The second function, that of actually deciding upon the national plan, and thereafter of amending it as occasion arises, must obviously be exercised in a democratic community by some body which can claim to express the will of the community, and not merely the opinion of a body of experts. Ultimately, the approval of the national plan is obviously a matter too important to be entrusted to any authority less than the supreme Government itself. If in a planned economy the parliamentary system remains in being, and there still exists a Cabinet responsible to Parliament for the government of the country, the authority ultimately responsible for the national Plan will clearly be the Cabinet, submitting its proposals as existing Governments submit their Budgets to Parliament, which will be free to reject the plan if it disapproves. In practice, however, Budgets are practically never amended except in detail, or by voluntary concessions made by the Government, though of course, a Government may fall in consequence of attempting to carry an unpopular Budget through Parliament. The real responsibility for the Budget belongs not to the House of Commons but to the Cabinet, and particularly to the Chancellor of the Exchequer. If the parliamentary system continues in being, the responsibility for the plan of production is bound similarly to rest upon the Cabinet and especially upon the Minister within the Cabinet who is entrusted with the function of co-ordinating the various bodies responsible for the organisation of the plan. Let us call him the Minister of National Planning. This Minister will presumably have to secure the approval of his Cabinet colleagues for his plan, and then to lay it before the House, much as the Budget is now brought forward, and with the same chance that an unpopular

plan may entail a change of Government. But, whereas nowadays the Chancellor of the Exchequer prepares his Budget in dead secrecy in conjunction with a small body of high Treasury officials, this will be clearly impossible in the case of a national plan of production based on draft estimates put forward by a number of public authorities, each responsible for drafting a sectional plan for its own particular branch of the national economy. It may be uncertain up to the last moment what precise form the plan is to take; but a great deal of public discussion is bound to precede the drawing up of the final plan, and it will be out of the question for the Minister of Planning to act on his own single responsibility to the extent to which the Chancellor of the Exchequer now so acts in preparing his Budget.

Indeed, it seems to me beyond question that there will have to be some functional and at least partly representative body which will actually draw up the plan which the Minister of Planning will thereafter present to Parliament. What is the structure of such an authority to be? It would be possible to constitute it in such a way as to give representation to each of the sectional controlling bodies responsible for the execution of the various parts of the plan, so that each leading industry would have its representative or representatives upon the National Planning Authority—a body wholly distinct from the advisory National Planning Commission of which I have spoken above. But I do not believe that this method of representation would be at all satisfactory. It would yield a planning authority consisting of representatives, each of whom would inevitably act as the advocate of the sectional plan produced on behalf of his own par-

ticular industry, so that all its members would be looking at the complete plan from their own sectional points of view, and no one would be regarding it from the standpoint of the community as a whole. It would be possible, and I should think certainly desirable, for the National Planning Authority, before approving the final plan, to enter into conference with representatives from all the various industries and services, and give them the chance of raising objections and criticisms and of stating their various points of view. But the function of these representatives should be in the last resort consultative; and the decision as to the final form of the plan should rest with an authority independent of the sectional planning bodies.

One possible way of achieving this result would be to entrust the final decision concerning the plan either to the Cabinet itself or to an Economic Committee of the Cabinet consisting of the Ministers responsible for the leading departments concerned with economic affairs. But, even if this were to be in form the solution adopted, it is unlikely that a body of Cabinet Ministers could take more than the most general responsibility for the planning of production. They would have to depend on information and advice coming to them from some other source; and this would mean, in the absence of some other specially constituted body, that the national plan would be in effect drawn up by Civil Servants, subject only to the most general directions by the responsible Ministers. There is, however, certainly no better reason for entrusting a body of Civil Servants with the devising of the national plan than for placing this responsibility in the hands of the experts attached to the National Planning Commission; and, if we have rejected this

solution on the ground that the function of the expert is rather to advise than to determine, we are bound also to reject the idea that the plan can be effectively controlled by a body of Cabinet Ministers acting on the advice of departmental Civil Servants. We want a body capable of devoting adequate attention to the working out of the plan, but standing in a more democratic relationship to the community than either the Civil Servants of the various Government departments or the experts of the Planning Commission.

Such a body will have, I think, to be constituted mainly on a representative basis. It will have to include persons chosen to represent primarily the interests and point of view of the whole body of consumers. It could reasonably include a certain number of Members of Parliament—among them members outside the ranks of the Government as well as governmental members—who would be in a position to act as a sort of Parliamentary Committee for keeping the House of Commons regularly in touch with the working of the national plan. It could reasonably include, too, persons drawn from the regional authorities throughout the country, who would be able to ensure that plans drawn up on the basis of drafts submitted by the various industries were based on an adequate consideration of the needs of the various regions; and it could also include representatives of the Co-operative movement and of any other special consumers' agencies deemed worthy of representation. Finally, it could include certain representatives chosen through the Trade Unions, in order to safeguard the claims of the workers as producers in connection with the plan, and room could be left for the appointment of a few individuals such as experts in economics or finance or in

such matters as regional planning or industrial hygiene. There would be no need to prescribe a rigid constitution for the National Planning Authority, and its composition could vary from time to time, provided only that it was so constituted as predominantly to represent the interests of the general community rather than any particular or sectional point of view, and at the same time to give adequate representation to those special interests which would be in danger of being overlooked or under-considered in a plan drawn up mainly on the basis of draft sectional plans for each industry or service.

The third function, that of inspection and supervision of the actual working of the national plan, requires, I feel sure, a separate agency of its own. This agency would have to be under the authority of the Government, to which it would be responsible; but it should be, I think, independent of the National Planning Authority, in order that it might be free to criticise the draft plan, and to make suggestions for its amendment. Like the National Planning Commission, this Department of Economic Inspection would need the fullest access to the facts and figures relating to the conduct of the various industries and services included within the plan; and each sectional body would need to be under an obligation to submit all relevant documents to it and to give access to its books to inspectors acting under the auspices of the department. It would be the function of the department to be constantly criticising the efficiency of each branch of production, both from the financial and from the technical point of view. It would have its travelling inspectors, who would be constantly going up and down the country, studying from various points of view the actual working

of the planned economy. It would presumably take over such functions of inspection and control as are now in the hands of the factory department of the Home Office or the Trade Boards inspectorate. But its duties would extend far beyond the enforcement of observance of the labour laws ; for it would be concerned with every aspect of technical and financial efficiency, and not with working conditions alone. It may be suggested that this would involve considerable duplication with the work of the National Planning Commission. But the functions of the two bodies are really quite distinct. The task of the Planning Commission would be to consider, in the light of all the existing circumstances, what the national plan ought to be, and how it ought to be modified from time to time. The task of the Department of Economic Inspection would be, taking the national plan as its starting point, to discover how effectively the plan was being carried out and to make suggestions for its amendment, which would then pass for consideration to the National Planning Commission and to the National Planning Authority itself.

Doubtless this outline of the possible central structure of a planned national economy is put in too dogmatic a way. For there are many possible alternative ways of providing for the various tasks which I have outlined. My point, however, is not that this is necessarily the most satisfactory structure, but that whatever structure may ultimately be adopted will have to be adequate to the performance of these essential functions. If I have written over-dogmatically, that is only because this way of presenting the matter seems to offer the best chance of clarity about the underlying principles.

We have not, however, yet done with the central structure of a planned economy; for we have still to consider the relations between the central planning authorities, whatever their nature, and the authorities responsible for the supply and distribution of the financial resources at the disposal of the community and for the planning of the distribution of the national income. In accordance with what has been said in earlier chapters, we may assume the co-existence with a planned system of production of a planned monetary system under the control of a central banking authority which will be the directly responsible body for the allocation of short-term financial resources to the various industries and services included in the plan. But, apart from this, the execution of the plan will demand an allocation of long-term financial resources, or, in other words, a supply of capital to the various industries and services in accordance with the provision made for replacements and extensions of productive plant. Clearly the National Planning Authority, being the body responsible for planning production as a whole, will embrace within its functions the allocation of resources to the production of producers' goods, including capital goods, as well as consumers' goods. It will have to decide, subject to the ultimate control of the Government and of Parliament, what proportion of the available productive resources is to be set aside for the production of future wealth, and how these resources are to be distributed among the different industries and services. To some extent this decision will be made for it by the claims put in with the approval of the Government on behalf of the various social services. The Ministry of Education, for example, or whatever authority is responsible for

educational development, will place directly before the Cabinet its plans, which will require the expenditure of a certain supply of productive resources for the building of new schools. The Public Health Department will make similar requisitions; and these demands for capital expenditure will reach the planning authorities ready-made at the hands of the responsible Government agencies. The planning authorities will doubtless be entitled to object that the educational department, or the public health department, is demanding more than can be performed, or at any rate asking for too large an allocation out of the available resources; and any such objection will have to go before the Cabinet for decision. But, subject to this, the planning authorities will be faced with certain demands which they will have to meet, and will be left with the task of deciding, after these claims have been met, what appropriations they can afford for the development of capital resources in the industries and services more directly under their control. They will presumably reach these decisions in terms of quantity of output rather than of money, even if they continue to express decisions about quantities of output in terms of monetary appropriations. What a planned economy will decide to do will be, in effect, to use up a certain proportion of the available productive resources in order to build so many new factories, to drain or afforest so much land, to build a new railway line so many miles long, and so forth. But these decisions will have then to be translated into monetary terms; and provision will have to be made for the supply of the necessary financial resources to the industries and services on whose behalf the new capital developments are to be carried out. In other words, a planned economy

involves the need for an authority specifically entrusted with the function of allocating the available supply of capital, however raised, among different uses, in accordance with the requirements of the national plan as a whole.

The name under which the body to be made responsible for this service usually figures in schemes of economic planning is the "National Investment Board". It will be seen that in my conception of its functions it is essentially a subordinate body. It does not itself decide how large the available supply of new capital is to be, or how it is to be distributed between different industries and services, but only translates into financial terms and implements decisions on these points already made by the National Planning Authority. This is in accordance with the view that money ought, throughout the economic system, to be made purely an agent for the exchange of goods and services, and not a source of independent power. Decisions involved in the national plan ought to be made as far as possible in terms of real things, and only translated subsequently for convenience into terms of the money which will have to change hands in the course of their execution.

The functions of the National Investment Board, however, will vary very greatly according to the system by which a planned economy finances capital development. As long as capital for new enterprise continues to be drawn largely or mainly from the "savings" of private citizens or sectional institutions, so that sums paid out as incomes are intended to provide for the purchase not only of consumable goods but of capital goods as well, the National Investment Board will necessarily serve as a channel through which savings

flowing in from individuals and institutions will pass for redistribution to the various industries and services which are to make use of them in accordance with the national plan of production. There may be in the institution of a planning system a transitional period during which this system is maintained wholly or in part; but I have made it clear earlier in this book that in any completely planned economy this method of "saving" will be inappropriate, and that the correct way of providing for investment will be for the State itself to set aside the necessary resources for this purpose, and thereafter to distribute to the consumers incomes sufficient for the purchase of the available supply of consumers' goods only, and not of producers' goods as well. To the extent to which this comes about, the National Investment Board will derive its finances not from individual saving, but by way of a collective appropriation from the national Budget, decided upon in close conjunction with the parallel decisions concerning the magnitude and distribution of consumers' incomes and free services. Under these conditions its importance will become much less; for it will have only the task of receiving a certain sum determined independently of it by the State and of distributing this sum among various claimants in accordance with principles determined independently of it by the National Planning Authority. It may even completely disappear. The National Investment Board, in other words, is an important instrument in the transitional stage of instituting a national plan, but it has no important place in the final structure of a planned economy.

Great importance does, however, attach to the making of the decisions which will determine the relative amounts of productive resources to be assigned

to capital accumulation and to immediate consumption. What body is to be responsible for this decision? It must, as far as I can see, fall within the competence of the National Planning Authority, subject in this, as in other matters, to the overriding authority of the Government and of Parliament. For it is impossible to draw up a national plan at all which will not involve the taking of this decision. There are, however, at this point two closely related questions which it is indispensable to keep apart. There is, first, the decision how much of the available productive resources to devote to capital accumulation and how much to immediate consumption; and there is, secondly, the decision how to allocate what is available for immediate spending among the different consumers. It does not follow, even if the National Planning Authority is the appropriate body for deciding the first of these questions, that it will also be the appropriate body for deciding the second.

How this second question is to be decided is bound to depend in part on the method which the community adopts in distributing the national income. If, as I have suggested earlier, an increasing part of the available income is paid out not as wages or rewards for services rendered in production, but in the form of a social dividend to all members of the community, the decision about the magnitude of this dividend will clearly be a matter to be settled by the Government itself, as a part of the national Budget. The decision to pay out a national dividend of so much will be a collective decision of the entire community, which will confront the National Planning Authority and form the basis on which it will proceed to work out its estimates of demand. But there will be also a residue of the

national income, large or small, which will continue to be distributed in the form of rewards for productive services; and it will be necessary to set up separate machinery for the determination of this form of distribution. Doubtless this task could be assumed by the National Planning Authority; but it seems better to create an *ad hoc* body for this purpose, in the form of a tribunal to which the various industries and services would have to submit their plans for the remuneration of those employed in them, just as they would submit their plans of production to the National Planning Authority. A tribunal of this sort would have the task of scrutinising the national wage and salary bill, so as to secure the provision of appropriate rewards for the various types of productive effort—having regard both to the character of the work done and to the conditions of labour supply in the various services. It should be in a position to control hours of labour as well as wages; but in this matter of hours, which directly affects the possible total of the national output, it would have to work under instructions as to the general standard of hours laid down by the National Planning Authority or by Parliament; while in the matter of wages it would receive an estimate for the approximate total amount available for distribution from the authorities responsible for the planning of the monetary system.

Of course, a body of this sort would not have to start *de novo* in its planning of the distribution of the available income. It would have as a starting point the existing levels of remuneration in the various types of occupation, as modified by the introduction of the system of social dividends, and also the existing arrangements for working hours and conditions of labour, as

far as these affected the levels of remuneration for different types of work. Its task would be, not to introduce a totally new system of remuneration based on some conception of abstract justice or productivity, but constantly to modify the existing levels of payment and conditions of work in accordance with considerations of expediency. For example, the tendency for a large quantity of labour to seek admission to a particular occupation would be a sign that the total eligibility of the conditions of employment offered by it was greater than the total eligibility of alternative occupations. In the case of rapidly expanding trades, it might be necessary to offer special inducements of this kind in order to induce the requisite supply of labour, whereas it would be desirable to deter entry into occupations in which the available supply of qualified labour was tending to outrun actual or prospective demand. This may sound very like the existing principle of the law of supply and demand as it applies to the remuneration of labour under capitalist conditions. But there is the essential difference that, whereas nowadays the total income of the worker usually depends on the remuneration which he gets in his job, under the conditions of a planned distribution of the national income he will be drawing his social dividend irrespective of the level of remuneration for the actual job in which he is engaged. Remuneration for work done will be retained at all only to the extent to which it is necessary in order to assist in regulating the supply of labour and in eliciting the satisfactory response of effort from the worker, and there is therefore no objection to allowing the laws of supply and demand to operate to a considerable extent upon the relative levels of remuneration, under conditions which

will ensure that they do not either depress the incomes of particular bodies of workers below a reasonable national minimum, or raise incomes for other types of employment to such a level as to re-create class divisions. Of neither of these calamities will there be any risk when once the social dividend has been raised to a level which ensures a satisfactory minimum standard of life.

I think that, wherever conditions permit, it will be wiser to equalise the eligibilities of different occupations more by varying hours and conditions of labour than by establishing widely differing wage standards. An occupation can be made more eligible by reducing hours or granting extra holidays just as much as by increasing wages; and the reduction of hours has the advantage that it does not increase the gap in incomes between different sections of the population. Even if, in the long run, remuneration for work done disappears altogether, the possibility of varying the hours and conditions of labour will remain open as a means of equalising eligibility between different types of employment. I am here thinking, of course, not only of the length of the normal working day, but also of the possibility of offering extended holiday periods—with pay—to workers in specially dangerous or irksome branches of industry.

Clearly, the authority responsible for planning the distribution of the national income would work, just as the National Planning Authority would do in its decisions about production, on the basis of estimates placed before it by the responsible sectional authorities for the various trades. Each trade, in drawing up its plan for the ensuing year or planning period, would include an estimate of the sums required for the remuneration of

its workers and of the hours to be worked and the broad general conditions of employment. These plans would come before the National Income Planning Authority, just as the plans for production would come before the National Planning Authority itself. Evidently these two matters would have to be considered in relation to each other; and accordingly the National Planning Authority would have to be represented upon the body which was made responsible for the allocation of that part of the national income which continued to be paid out in the form of rewards for work. The task of the National Planning Authority would be essentially that of equalising as far as seemed desirable the conditions of employment laid down in the various sectional plans; and the final draft production plans for all industries and services would have to go before the National Planning Authority accompanied by the endorsement of their wage and salary clauses by the authority responsible for this work of adjustment.

I do not propose to suggest any precise constitution for this wage—and salary—planning authority. Evidently, it should include a strong representation from the Trade Unions and professional associations organising the various types of workers. There should sit upon it representatives from the National Planning Authority and from the body responsible for monetary planning. But I do not suggest that these representatives of special interests or functions should constitute the majority, but rather that, in the same way as the National Planning Authority, the majority should be so appointed as to represent the point of view of the entire community of income-receivers rather than any special sectional group. If Parliament remains in being as the ultimate governing authority, a substantial

fraction of the wage—and salary—planning authority's membership ought, I think, to be drawn from private Members of Parliament.

Throughout this chapter it will have been obvious that I have been endeavouring to suggest appropriate machinery for the constitution of the planning authorities under very great difficulties. So much is bound to depend on the rest of the social structure to which this planning machinery is to be related that it is very difficult to consider its structure as a problem apart. I have assumed for the purposes of this chapter the continuance of a parliamentary system of some sort; but clearly a planned economy will require a parliamentary system of a very different type from that which exists to-day. It would take me far beyond the field which I wish to cover in this book to discuss the changes which would be required in the parliamentary system to make it an appropriate instrument for the government of a planned economy conceived on Socialist lines; and I am therefore bound to leave my proposals for the constitution of the actual planning machinery hanging very much in the air, knowing full well that their positive form is bound to depend largely on the solutions which are found for problems lying outside the field of economic planning. I can only hope that I have been able sufficiently to indicate the nature of the functions for which appropriate machinery will need to be devised, and the broad relationship that will have to exist between the different parts of the planning machine.

There is, however, one problem which, although it takes me outside the field of economic planning pure and simple, I must discuss rather more fully. I have assumed so far a system of co-ordination between the

different industries and services operated nationally by the bringing together of largely self-governing national units for each industry or service. But I have already indicated earlier in this chapter that, if top-heaviness is to be avoided and the planning machinery made adequately flexible, it will be necessary to introduce the largest amount of regional decentralisation that is compatible with the small size of the country as a whole and the very close relationships which exist in most industries between the factories or other productive units situated in the various regions. I feel sure that, at any rate for a long time to come, a national plan for Great Britain will have to be drawn up as a single national plan, mainly co-ordinating sectional national plans for the various industries and services, and not as a series of regional plans cutting across industrial divisions. For each of the main industries and for their relationships one to another, there will have to be a national plan covering the country as a whole. This, however, does not preclude a large degree of regional decentralisation in the formulation of the sectional plans for the various industries. The degree of this will necessarily vary from one industry to another, according to the extent to which the industry is or can be broken up into regional units, and is producing for a regional or local market. It is fully compatible, too, with a difference in the degree of autonomy between one region and another—for example with the concession of a larger degree of regional autonomy to Scotland or to Wales than to any of the regions into which it is to be expected that England will be divided for the purpose of co-ordinating the services now mainly under the control of the local authorities. It is to be assumed that, in all productive industries which are carried on

exclusively or almost exclusively for consumption in a particular area, there will be regional controlling authorities under the supervision of the national body for the industry in question. The more strongly regional government is developed in the conduct of the social services, and the more functions regional governing authorities take over from the existing local governing bodies, the easier it will be to link up the regional authorities for the various industries and services with the regional governing bodies of a political character. For example, if the coal industry or the iron and steel industry is producing a national plan based on regional plans drawn up in the various areas into which the country is divided, it will be natural for the regional coal authority or iron and steel authority to submit its draft plans to the regional political body before forwarding them to the national authority for its own industry. In some cases, as in that of building, public works, and a good deal of road transport, the regional plan for the industry or service will probably have to be worked out co-operatively between the regional authority for the industry concerned and the regional governing body representing all the inhabitants of the region. It will thus come forward to the National Authority for the industry, and ultimately to the National Planning Authority, with the joint imprimatur of the two regional bodies concerned; or in the event of regional disagreement, the issue at stake will be sent forward to the higher authorities for the country as a whole by both the disputants.

Regional decentralisation has the advantage not only of preventing congestion at the centre and the growth of top-heavy units of organisation too large and cumbersome to be effectively controlled, but also of spreading

responsibility over a wider field. One of the fundamental problems of democratic government is the provision of adequate opportunities for training in leadership and responsibility, especially to younger men who must find locally, or at any rate regionally, the means of equipping themselves for rising to positions of national influence and authority. The more decentralised the system is, within the limits set by the need for unified organisation, the more safeguards are there that it will be democratically administered in fact as well as in theory. It is, however, essential to stress the point that in a relatively small country the basis must be one of decentralisation and not of federalism—that is to say, the residual powers and the ultimate controlling authority must remain unified in the hands of a central body, and must not be broken up among a number of separate regions. This is indispensable if the planning system is to work out aright. For the concession of absolutely independent authority to separate regions will be just as destructive as the concession of similar authority to separate industries of the necessary co-ordination of estimated production and available productive resources. Regions can no more be allowed to compete one with another for the use of the available resources than industries can be allowed to compete in this way; and above all, the machinery for the ultimate allocation of the available national income must be national and not regional machinery, since it has to be worked in the closest possible conjunction with two other functions which have also to be organised on a national basis—the planning of production and the planning of money. There is, however, room, within these limiting conditions, for a very wide measure of decentralisation, especially when there has

been time for the planning machinery to settle down and get into proper working order. At the time when planning is being first introduced it may be necessary to carry centralisation a good deal further than will be desirable when the system has settled down to work. For transitions from one form of organisation to another always involve somewhat centralised methods of control in view of the necessity for taking far-reaching decisions and correcting promptly errors which are discovered in the formulation of the initial plans. A planned economy, when it has had time to get into working order, should be far more effective than any other system in diffusing responsibility over a wide field, and assuredly its long-run success will depend on its doing this. For only by this wide diffusion of the responsibility for control will it be possible to avoid an undue rigidity and the tendency to bureaucracy and red tape which are inherent in all large-scale organisation, whether it be under the auspices of a public authority or of a capitalist trust.

CHAPTER XII

PLANNED ECONOMY AND WORKERS' CONTROL

THE last chapter dealt with the machinery of planning chiefly from the standpoint of central organisation. Its object was mainly to show how the machinery of a planned economy would, or at least could, fit together at the centre, so as to secure an effective co-ordination of the various industries and services included in the plan. Something was indeed said about regional as well as central organisation; and there was necessarily some reference to the constitution of the bodies entrusted with the control of separate industries. But this last question was very lightly touched upon, as it seemed best to reserve consideration of it for a further chapter.

Inherent in all forms of large-scale organisation is a danger of top-heaviness and bureaucracy. For bureaucracy is by no means a quality peculiar to bodies acting directly under the auspices of the State. A large capitalist combine can be quite as bureaucratic and over-centralised as a State department, and can interpose quite as many delays and annoyances in the way of those who want to get things done. It must, however, be admitted that, as planning involves an experiment in large-scale organisation going far beyond any that has been attempted under capitalist control, the dangers of top-heaviness and rigidity are bound to face it in an exceptional degree. It would be fully possible to construct a planned economy, excellently devised on

paper as a means of linking all industries and services together under a comprehensive scheme, that would be in practice quite unworkable because of the immense congestion of responsibilities it would involve for a small body of ultimately authoritative directors. On paper, these directors could be required to have their eyes everywhere, and to take a thousand important decisions a day ; but in fact no body of persons, however competent, can oversee directly more than a very limited field, or settle more than a very limited number of questions.

Accordingly, if a planned economy is to work well, adapting itself to constantly changing conditions and opportunities, and acting on the spirit rather than the letter of the plan when things go wrong, there must be within it a widespread devolution of responsibility and power. However necessary it may be—and it will be very necessary—to keep the different parts of the plan in right adjustment one with another, this adjustment will have to be flexible, and the responsibility for making it will have to be widely diffused. The pursuance of a common policy in major matters affecting the plan as a whole will have to be reconciled with the granting of large powers to subordinate authorities both to vary it in detail and to devise ways and means of giving effect to the general policies which the central planning authority prescribes.

There is, moreover, another reason why within a planned economy of the type discussed in this book power and responsibility will need to be widely spread. The object of a planned society is gradually to replace the monetary incentives on which Capitalism relies for getting the world's work done by other incentives more consistent with the social interest. But these

other incentives—the will to do good service to society and the sense that each man has his definite part to play in the promotion of the happiness and well-being of all—can grow to strength only if the mass of men and women engaged in every type of work, as well as the relatively few who occupy the positions of larger authority, can be made to feel that their influence counts in promoting or retarding social welfare. Very few people can or will feel this if their part in the work of society is confined to the carrying out of orders conveyed to them by a superior authority which they regard as external to themselves, and wholly beyond their power to control or influence. Responsibility implies and connotes power; and a society which is autocratically controlled by a few of its members—even if these few be the most efficient for the purpose—will never be able to enlist behind it the positive co-operation of the many in making it as efficient as it can be. Or rather, even if this can happen for a time, when the many are under the spell of some revolutionary excitement, a society can rely on the continuance of willing and co-operative service only if it is prepared to endow its servants with the power, in the measure of their several capacities, to play a real part in its control.

The problem of planning, therefore, is not merely that of devising the appropriate central machinery, and then leaving those in charge of the various central sections of the plan to pass on their orders to local subordinates in each industry or service, but also that of devising means whereby the whole personnel of each service may have a vital part in controlling its operation and in passing on their suggestions and ideas in such a way as really to influence the formulation and working of the general plan.

To these contentions some will raise the objection that the conduct of industry is, in these days of mass-production, necessarily a highly technical matter, upon which the ordinary manual or clerical worker can be in no position to pass a valuable judgment. The craftsman under the conditions of pre-machine production was able to control his job, because he worked by himself, with tools whose use he thoroughly understood, upon a material which it was his task, and his alone, to shape into a desired form. But under modern factory conditions, it is urged that the equivalent of the craftsman's tools comes to be the entire plant equipment of a huge integrated establishment, embracing many related productive operations, and using the services of a horde of detail-labourers. The modern equivalent of the craftsman is accordingly held to be the technical director of an entire business plant; and it is said to be for him, and not for the detail-labourers and executants who are his living tools, to control production. In these circumstances, it is argued that all the detail-labourer can hope for is that the technical director shall be himself responsible to a higher authority which will prescribe to him the line of policy that he is to follow, and that this authority shall be the whole people, organised into a political democracy for the ultimate control of its common means of living. It is argued that the ordinary man, if he can be satisfied that the technical directors of industry are thus responsible to the whole community, will acquire the needed spirit of service and the needed incentive to good work, without demanding a share in the control of industry that must be inconsistent with the requirements of the modern productive system.

This case against "workers' control" is undoubtedly

formidable—far more formidable than I used to admit when I wrote my Guild Socialist books. Its force has become more obvious as mechanisation has advanced further, and unskilled, or at most merely dexterous, labour come to play a larger and larger part in industry. But I am quite unable to accept the plausible conclusion that all hope of “workers’ control” must be abandoned, and that we must content ourselves with the safeguard of an ultimate political control over the technical autocrats of industry. For, in the first place, I do not believe that men who have no freedom or responsibility in their working lives will ever be able to perform the task of exerting political control over industry with effect. The process is too indirect to be effective. The citizen has to elect his political representatives. They in turn have to set up a central organisation for the co-ordinated direction of economic policy. Out of this central organisation have to emerge the separate managing bodies for each industry and service, and out of these again the technical and administrative directors of each separate establishment. By the time this elaborate circuit of delegations has found its way back again to the rank and file worker, by way of departmental managers and foremen, such original impulse as the process of democratic election for the political assembly possessed will have long been completely spent. There will be no “workers’ control”: only the inexorable discipline of the machine-system. There will be no freedom in industry, except for a few happy technical directors, free to manipulate their tools, human and inhuman, to their hearts’ content. There will be no democracy; for political democracy will be stultified by the autocracy of the economic system.

Moreover, under such a system the individual worker will not *feel* free. He will feel what he is, a slave of the mass-machine, even if that machine is used, far more than now, to produce real utilities for the common enjoyment. But, if he feels thus as a slave of the machine, he will feel no adequate incentive to render the best service of which he is capable. His pace of work will be set for him by the machine—or rather by the technicians who set the machine revolving at a certain pace. Perhaps, since the machine can, under modern conditions, largely set a pace to which the machine-operator has to respond, it will be possible to secure hard work and high output under such a system—as these things are secured in the mechanised establishments of Capitalism to-day. But matters are not so simple as this suggests; for there will set in, if this is how socialised industry works, a revolt against the machine—a more and more agonised and neurotic kicking against the pricks of the economic tyranny in which the worker will feel himself hopelessly involved. There will be strikes, often over issues that seem to outsiders trivial and beside the mark; and these strikes will be denounced as “strikes against the community”. There will be concerted attempts to “speed down”, perhaps acts of sabotage and machine-breaking—the re-emergence of a Syndicalist spirit of hatred of the machine and its directors, even though these directors claim to be acting as the representatives of democracy. There will be through the entire society a disastrous *malaise* and disillusionment, which no enlargement of wealth and leisure will suffice to prevent. The robots may be richer and more leisured; but they will be unhappy with an unhappiness that many of them will be unable to define or to track to

its source. The outcome will be an unhealthy and neurotic community, whose riches will turn to dust and ashes in the mouths of the people—until it loses even the capacity to churn out riches in face of the mass-resistance which its irksome discipline engenders.

If we are to avoid these dangers, we must make men and women citizens of industry as well as of the State. We must make up our minds to a formal sacrifice of the means to productive efficiency in order to gain the substance instead of the shadow. The autocratic technician may know best how maximum output could be secured *if men were not men at all, but merely machines*. But men are men, and not machines; and it is for men—for all men—and not as an end in itself that production is carried on. The end is happiness, or well-being, and not output; and men's happiness and well-being depend not only on what they consume, but also on *how* they produce. The technician-autocrat is no more to be trusted to dictate to them how they are to carry on production than the political autocrat is fit to prescribe to them how they are to behave as citizens. Industry is a technical matter; but so is politics. In both, the technicians should serve and advise, but never rule.

If this is granted, we must set out to make democracy effective in industry as well as in politics; and this can only be done directly. It will not avail to invoke the politician to control the technician; for the politician has too little knowledge and experience of where the shoe pinches. Industrial democracy means workshop democracy, or it means nothing.

But how are we to set about making workshop democracy, without putting fatal obstacles in the way of productive efficiency? Industry must work after

a plan, to supply the consumers' needs. The separate industries and the separate establishments within them must work in with this plan, each fulfilling its appointed sectional task. Assuredly this is so; but, as we have seen already, so much is fully consistent with the building up of the plan largely on a foundation of criticisms, suggestions and proposals coming up from below. The central plan can be built up out of sectional plans submitted by the various industries; and each of these sectional plans can be largely based on projects formulated within the separate establishments. The last word in revising plans must come from the centre; but the centre need be no more than a co-ordinating and revising authority, working on a basis of spontaneous proposals coming up to it from every possible source.

Moreover, the plan will be mainly a question of what is to be produced; and, though *what* and *how* are closely intertwined, there is a vital difference between them. The appropriate sphere for "workers' control", as distinct from workers' criticisms and suggestions, is that of means and method. The reality of control for the rank and file worker begins in the workshop, where the industrial process touches directly his everyday life and hope of happiness. If there is to be "workers' control" in any real sense, it is in the workshop that the worker must be primarily conscious of his power. Given that, workers' control can be built up readily enough over the wider units; without that, wider forms of control, even if they exist on paper, can be no better than a sham.

Is, then, "workshop control", in any valid sense, compatible with modern machine technique? I suggest that it is even highly compatible, up to a certain

point. The methods of mass-production aggregate the workers into large groups under a common discipline, so that each workshop is more and more apt to show a large number of persons either all doing exactly the same thing, or all collaborating upon a linked series of repetitive processes that go to the making of a uniform product. The effective unit in the modern workshop is not the individual worker but the group. If there is to be "workers' control" at all, only the group can exercise it, no longer the individual haggling with the foreman about his personal and peculiar job.

As the very foundation of industrial citizenship, then, there must be a Workshop Committee, entitled of right to be consulted about the allocation and organisation of work in the shop, the pace at which the machines are to run, the provision of seats and the adjustment of the machines to convenient positions, the ventilation and lighting, the institution of rest-pauses, and every other matter which affects the comfort and amenity of work. This right of consultation must include a right of appeal from the decisions of foremen or workshop managers to a higher authority which the workers will recognise as expressing their point of view as well as that of the technician or administrator; and as far as possible actual power and responsibility must be delegated to the workers as a group, so as to make the workshop, as nearly as possible, internally self-governing. How far this can be done will vary greatly from case to case—with the degree of skill existing among the workers, the character of the work itself, and the presence or absence of effective rank and file leadership within each particular group. It will not work out effectively in every case—nothing does; but

it can be made to work in enough cases to give planned industrialism quite as democratic a foundation as popular representation has ever secured in the political sphere.

I do not suggest that the workers in each workshop should, at the outset, choose their own foremen and managers, though I do hold that, as the new system settles down, this choice can properly be placed in their hands, from among candidates duly qualified and tested by some wider authority. I see no reason why, given a proper system for testing and approving technical qualifications, such as exists already for a good many jobs, from mine-managers to ships' officers, the choice of factory managers should not be made by a democratic vote, either of the whole employed personnel or indirectly of its representatives on the factory committee. But the officers so chosen must have security against capricious removal; and I doubt if the choice of managers is the best way of starting to institute industrial democracy. Better get the workshop machinery of committees and consultation working first, and then add this function to it when it has proved its capacity.

I should begin, then, with the workshop committee as a foundation, and build up from this, in all departmentalised establishments, to the works committee representing the various departments. The ideal, under a socialised system, would be to have this committee representative of the entire personnel, from chief manager to unskilled labourers. But, again, this might not be practicable or desirable at the outset. It might be better to represent on the works committee only those bodies of employees whose organisation in Trade Unions showed their capacity for collective

action and their recognition of a sense of solidarity with their fellow-workers. A committee based on these groups would be more capable of effective action, and more likely to expand its powers, than one based on a wider representation of groups lacking in a sense of solidarity and community of aim. A committee so instituted, to meet and discuss with the "management", could readily be expanded to include the higher grades of employees as fast as, under the new conditions of socialised planning and democratic control, a wider sense of solidarity came into existence.

Beyond the single establishment there might be, at the outset, no formal machinery at all for the exercise of "workers' control". Regional Boards for the conduct of an industry would probably be constituted at first by nomination by the national controlling body; and the national body itself would probably be appointed by the National Planning Authority in consultation with the Trade Unions directly concerned. Regional and national bodies so constituted could be kept in touch with workshop opinion by means of periodical conferences with delegates drawn from the works committees; and these bodies of delegates could be given specific power of appeal against the decisions and policies of the managing boards. Then gradually the powers of the delegates could be expanded, until they became responsible, in consultation with the wider planning authorities, for choosing first the Regional and then the National Boards of Management: so that each industry could become, by stages, fully self-governing in its internal affairs as fast as the will and capacity to govern it developed among those engaged in it.

After this fashion, or something after the fashion—for I have no wish to be dogmatic about it—I now

envisage the coming of Guild Socialism. At an earlier stage, when I thought Socialism likely to come rather through industrial pressure from a growing and growingly militant Trade Unionism, I envisaged the Guilds as arising out of the Trade Unions and coming into full existence at the very moment of socialisation. But now it is plain, in view of the check to Trade Union expansion which economic depression, the shift from old to new industries and from highly unionised to non-union areas, and the advance of mechanisation have administered, that socialisation must come as a political measure, rather than as a product of direct action in the industrial field. If this is so, it will be essential, in the stage of transition, to create from above the controlling authorities which are to carry through the change and organise the socialised industries as sections of the new planned economy. Under these conditions, the development of "workers' control" towards a Guild system can come only through a process of gradual expansion in the powers and functions of workshop bodies created, with Trade Union help, as integral elements of the new industrial order.

That a socialised economy should develop towards a system of Guild control seems to me indispensable if the dangers of top-heaviness and concentrated bureaucracy are to be avoided. As we have seen, these defects are not, as many people seem to suppose, peculiar characteristics of State-run industry. They can develop just as easily inside private Capitalism, wherever private capital is organised on large-scale or monopolistic lines. Accordingly, the problem is one which confronts the modern world whatever social and economic policy it may elect to follow. For it is quite

certain that, whether industries are socialised or not, the units of production and still more of financial control are bound to become larger and larger as technique continues to develop. There is no real choice between "private enterprise", in the sense of a system dependent on the individual initiative of the small-scale *entrepreneur* able to oversee and control personally the entire range of business operations for which he is responsible, and impersonal large-scale organisation, which must proceed by means of a hierarchy of powers and a delegation of authority through a number of stages. The former of these systems became over a large part of industry impossible as soon as technical invention had reached the point of making large-scale production the means to a far higher standard of living than there was any prospect of securing under the older conditions. The choice now lies, not between private enterprise in any real sense and bureaucracy, but between rival methods of organising large-scale enterprise—exposed in any event to the dangers which all forms of large-scale operation necessarily involve.

I have stressed the point that a planned economy cannot be expected to work successfully unless it is able to diffuse very widely among those engaged in the work of production a sense of responsibility for its efficient conduct. This is partly a matter of regional as against national control; and this aspect of the question has been discussed already. But it is also and to a far greater extent a matter of the internal organisation of each separate industry or service. For if top-heaviness and bureaucracy are to be avoided, the means of avoiding them must be discovered within each industry as well as through the breaking up of national units along regional lines. If socialised industry is to avoid

bureaucracy, the main body of those engaged in each separate industry must be imbued with a sense that the success of the plan of socialised production depends upon their co-operation, and that some share of the power and responsibility rests upon them as individuals as decisively within their narrower spheres of action as upon those entrusted with the formulation of industrial policy in a larger sense.

In the long run the aspiration of a planned economy must be to make each industry to the fullest possible extent a democratic self-governing Guild, responsible in matters of public policy to society as a whole, but left free, in the execution of the policy prescribed to it by society, to manage its internal affairs mainly in its own way. I do not of course mean that each industry or service can be left free to do things which militate against the success of the national plan as a whole. There must be in every case a policy prescribed by the wider authorities responsible for the whole plan, and there must be means of securing that the controlling agencies for the separate industries duly carry out the requirements of this wider authority. There must be, as we have seen, means of assessing the wages and conditions of work in the various industries through an authority capable of envisaging the economic problem as a whole. No industry can be allowed finally to say either what it will produce or what it will pay to those engaged in it for their services, though in both these matters the authority for each particular industry should certainly be allowed to make the initial representations and to offer its advice at every stage to the central planning authorities, on the basis of its closer knowledge of the conditions relating to its own branch of production.

For the determination of these wider questions methods have been suggested in the last chapter, and in the present chapter I have been dealing with that range of questions which falls more definitely within the competence of each separate industry or service. As we have seen, it will be the aim of a planned economy to reduce the part played by monetary incentives in inducing men to give of their best; and this decreasing reliance on the monetary incentive will be liable, if it is pressed too far at the outset, to cause a slackening of effort unless new incentives arise to take the place of those which are being gradually removed. The problem of new incentives is therefore vital, and it seems clear that if men are no longer to be induced, or are to be induced only to a diminishing extent, to work hard and well by the offer of monetary rewards, the terms of inducement under the new conditions must be more and more based on creating in the minds of those engaged in industry a sense of social responsibility for the quality of their work. The less we offer men differential monetary advantages, the more we shall have to make them willing to give good service because they feel that the giving of good service is a part of their civic duty, and that the power to give or to withhold this service has been definitely placed in their hands by society as their part in the making of the happiness and welfare of the whole.

On this issue I remain an unrepentant Guild Socialist, though I am conscious that the way to industrial self-government in any full sense may be longer and more difficult than I used to think, and that there are likely always to remain a large number of producers who will be but little conscious of the desire to share in the control of the work which they are doing, and will take

their colour and their attitude to the problem of work mainly from their more active fellows. It is not necessary, though it would be highly desirable if it could be done, to induce *every* worker in industry to take a keen and conscious part in the control of the work which he is called upon to do. What is necessary is to create among each body of workers who are called upon to co-operate in a common service a collective sentiment of responsibility and interest in the success and efficiency of their work. This involves no more than that there should arise in each factory and workshop a sufficient minority of active and interested men and women to impress their leadership upon the rest, and to make their spirit and attitude set the general tone. I cannot take so depressing a view of human capacity and intelligence as to believe that this is unattainable, when once the obstacles of class-antagonism and economic insecurity have been removed. Production will, doubtless, occupy a smaller part of men's lives and energies as, with expanding efficiency, the hours of work can be reduced without preventing the attainment of an adequate general standard of living. But, even so, work is bound still to bulk large enough among men's activities for the conditions of work to matter to them very much indeed, and for it to remain well worth their while to go to the trouble of controlling them. Unless this is so, a planned economy, even if it be based on the completest formal democracy, will be in danger of collapse. For the attempt to work side by side a democratic political system and an autocratic system of industrial control is bound to end in the destruction of the one by the other.

CHAPTER XIII

GREAT BRITAIN'S INTERNATIONAL POSITION

IN 1933 Great Britain's net imports of commodities exceeded net exports by about £260,000,000.¹ This deficit was almost balanced, according to the Board of Trade estimates, by the net surplus of invisible exports, that is to say, receipts from overseas investments and from shipping and financial services. Net income from overseas investments contributed £155,000,000, net shipping income £65,000,000, net income from other sources, mainly financial services, about £40,000,000. The figures of current payments on international account between Great Britain and the rest of the world thus roughly balanced, leaving no surplus available for fresh overseas investment, apart from the re-lending of such capital as was being repaid by overseas borrowers.

This situation is very different from that which existed before the war. In 1913 net imports into Great Britain exceeded net exports by about £134,000,000, to which must be added a net importation of bullion, bringing the total deficit up to £158,000,000. But against this invisible exports provided a net surplus of nearly £340,000,000, leaving over £180,000,000 available for fresh foreign investment, apart from the re-lending of sums repaid from previous loans. During the years before the war Great Britain was investing

¹ See Appendix, Table I.

new capital abroad to the tune of almost £200,000,000 a year, including re-investment, and obviously a large part of the demand for British exports was a direct consequence of this lending of capital, mainly to the less developed countries which were then rapidly expanding both their agricultural and their industrial production. In 1929, on the eve of the world slump, the deficit of net exports in comparison with net imports was about £350,000,000, but net receipts from invisible exports then amounted to £517,000,000. After taking account of bullion movements there was left a total of nearly £140,000,000 available for investment abroad. In 1929 receipts from foreign investments were estimated at £285,000,000, and from shipping services at about £130,000,000, and other invisible exports came to over £100,000,000, of which about one-fifth was on Government account, being the surplus of receipts from reparations and war debt payments over the sums due in respect of the American debt.

These figures are only very rough estimates, but they suffice to indicate broadly the problem which a planning authority for Great Britain would be called upon to face in the field of overseas trade. It will be seen that the surplus of commodity imports over exports was, both in 1929 and in 1933, at a very much higher level than before the war, that overseas investment, though it had regained large dimensions in the post-war years, never rose to anything like the pre-war level, especially in view of the change in the value of money, and that between 1929 and 1933, despite the reduction in the adverse commodity balance of trade, the surplus available for foreign investment completely disappeared. Indeed, in the year 1931 there was instead of a surplus a large deficit, which was a material factor in driving

Great Britain off the gold standard. This deficit exceeded £100,000,000 in 1931 and £50,000,000 in 1932, and the large reduction in the adverse balance of commodity trade in 1933 was only sufficient to restore an approximate equivalence. In the first half of 1934 the published figures of trade indicated the reappearance of some deficit, though this was probably in fact more than offset by an improvement in "invisible" exports.

If we were to assume a continuance of the net income of 1933 from invisible exports and of the 1933 levels of sterling prices for imported goods—two assumptions which are closely linked together, since a rise in the sterling prices of imports would be likely to bring with it an increase in invisible exports—it would be necessary for Great Britain to sell abroad, apart from re-exports of imported goods, British products to the value of at least £365,000,000, in order to pay for a volume of imports at the level of 1933, without including any provision for fresh investment of capital abroad.

With exports of this value, British importers were able, in 1933, to purchase imports to a total value of £676,000,000, or, *minus* re-exports, £627,000,000. Of this latter total, over £328,000,000 were spent on net imports of food, drink and tobacco, nearly £155,000,000 on raw or mainly unmanufactured materials, and about £140,000,000 on goods classified as manufactured or mainly manufactured. The national bill for imported food and drink thus accounted for a good deal more than half the total cost of net imports, whereas in 1929 the three corresponding figures were approximately £510,000,000, £285,000,000 and £306,000,000. Thus total retained imports fell from over £1,100,000,000 to £676,000,000, or by nearly 40 per cent. Food imports

fell in value by over 35 per cent; imports of raw materials by 45 per cent; and imports of manufactures by nearly 55 per cent. The fall of total imports was of course due to a combination of causes, including the general incidence of the depression and the depreciation of the pound sterling as well as the special measures taken to reduce imports by tariffs and quotas. But the very high fall in imports of manufactures shows quite plainly the effects of the British tariff in reducing imports of this class.¹

But the figures show also that after what had been accomplished between 1931 and 1933 there could be little or no room left for any further fall in imports without either a fall in the British standard of living or a substantial increase in the home production of foodstuffs. Indeed, as matters stand to-day, any expansion of the output of British industry would be bound to require an increased importation of raw and semi-manufactured materials, while any expansion in employment and consequently in consumers' incomes would lead to an increased consumption of certain imported foodstuffs, if not of imported manufactures as well. These conclusions are borne out by the figures for the first half of 1934, which showed a sharp increase in the volume of imports of raw materials and some increase in the volume of imported manufactures, though, owing to the imposition of deliberate restrictions, there was no corresponding increase in the total importation of agricultural produce.

From this point of view it is relevant to consider the effects which the tariff and other protective measures, combined with the depreciation of sterling and the depression in trade and industry, have had on the

¹ See Appendix, Table III.

volume as well as the value of net imports of various kinds. According to the calculations of the Board of Trade, which take 1930 as the base year, retained imports of food, drink and tobacco in 1933 were 2 per cent larger in volume than in 1930, and imports of raw materials 5 per cent larger, whereas imports of mainly manufactured goods had fallen to two-thirds of the 1930 amount. But even these figures fail fully to bring out the contrast, for the calculation for manufactured goods includes manufactured oils, which account for more than one-fifth of the total of manufactured imports, and imports of manufactured oils were more than 7 per cent greater in volume in 1933 than in 1930.

Moreover, as the accompanying table¹ shows, many of the imports classified as manufactured goods are in fact essential materials for the use of the finishing industries in Great Britain. This applies to a large proportion of the greatly reduced imports of iron and steel and other metal goods, and to the chemical, leather, paper and timber imports, as well as to oils. With the exception of iron and steel, all these classes of goods have continued to be imported in volumes exceeding the average for all manufactures, whereas the groups which consist chiefly of finished consumers' goods have fallen by far more than the average for the whole. Thus imports of cotton goods were reduced between 1930 and 1933 by three-quarters, and of woollen goods by more than four-fifths, of silk goods by over a half, and of clothing by more than a third. Evidently our protective tariff has been highly effective in its object of shutting out manufactured goods which are capable of being produced at home without great changes in British industrial equipment. Whatever

¹ See Appendix, Table III.

indirect consequences for the British export trades its success in this field may have produced, no one can possibly doubt its efficacy in giving the British producers a larger share of the home market for a very wide range of manufactured commodities.

In 1933, retained imports of food, drink and tobacco cost over £328,000,000.¹ If they had been bought at the prices of 1930 they would have cost £461,000,000. Retained imports of raw materials cost nearly £155,000,000, and would have cost £222,500,000 at 1930 prices. Thus, if prices were to return to the average level of 1930 and if the value of sterling in terms of other currencies were to remain as it was in 1933, nearly £880,000,000 would be needed to purchase the 1933 volume of imports, including the greatly reduced volume of imported manufactures.

In 1933 total exports of British goods were valued at £367,500,000. At the prices of 1930 they would have fetched £477,500,000, leaving £400,000,000 worth of imports to be covered by the net balance of invisible exports even without any provision for fresh capital investment. But in 1933 the estimated balance available from invisible exports was only £260,000,000. In 1930 it was £431,000,000, or rather more than enough to cover the 1933 excess of merchandise imports at the 1930 prices. In other words, if prices of both imports and exports were to recover to the 1930 level and the sterling value of British net income from overseas investments and shipping and financial services were to make a corresponding recovery, the payments and the receipts on overseas account would roughly balance, as in fact they almost did in 1933 at 1933 prices. But there would be little surplus available for the purchase

¹ See Appendix, Table I.

of additional imports or for overseas investment without a corresponding expansion in the volume of British exports.

In 1933 the volume of British exports was reckoned to be 78·4 per cent of the volume of exports in 1930, whereas the volume of retained imports was 91·7 per cent of the 1930 volume, despite the heavy fall in imports of manufactured goods.¹ Retained imports in 1932 were not very different in total from those of 1933, and the level of total retained imports in these two years can fairly be treated as an irreducible minimum at the 1933 level of industrial activity, apart from the possibility of a large expansion in the home production of foodstuffs, to which we will come later. There is, indeed, the possibility in the long run of a much larger home production of oil from coal displacing imported oil; but this is only a long-run possibility, and until considerable further technical progress has been made the cost of producing oil from coal is bound to remain far in excess of the cost of purchasing oil from abroad. Moreover, even if all motor oils came in time to be produced at home, there would be no very great change in the relative magnitude of the total figures of imports. Of imported raw materials which could be affected by increased home production, timber would take more than a generation for the effect of a policy of encouraging home production to be felt, and the others which are of importance—wool and hides—are closely linked with the expansion of agricultural output in the sphere of food production.

In 1933 the index of industrial production in Great Britain stood at 96 per cent of the level of 1930, and 88 per cent of the level of 1929. But even in 1929 the

¹ See Appendix, Table I.

unemployment index stood at over 10 per cent, and in 1930 at 16 per cent. Even if a level of 5 per cent unemployed were to be regarded as reasonably consistent with the adequate use of the available productive resources, this would involve a level of productive capacity for 1929 substantially higher than the level of actual production, even without taking account of the possibility of a more productive or intensive use of the available resources. But since 1929 mechanisation and the more intensive use of labour have made considerable strides, and the available supply of labour in the insured trades has also risen by 800,000, or $6\frac{1}{2}$ per cent. In the light of all these factors, a reasonably full use of the available resources of production would now seem to require—apart from the possibility of a shift between industry and agriculture, or between the output of commodities and the rendering of services of types not represented in the indices of production—a level of activity at least one-third higher than the actual productive activity of 1929.

Any such increase in total industrial activity would obviously require a very large increase in certain kinds of imports, especially those of raw materials and foodstuffs which are not produced at home. It would mean a greatly increased consumption of metals, timber, paper, textile materials, oils, leather, rubber and chemical materials, as well as of tropical foodstuffs and tobacco, and indeed of all foodstuffs of which the home production was not greatly increased, except wheat and a few other commodities for which the demand is highly inelastic. But this additional volume of imports clearly could not be paid for without a corresponding expansion of British exports.

Is there, however, any reason to regard as probable

an expansion of exports on the required scale? Clearly there is not, except as the accompaniment of an industrial revival in the world as a whole. Unless such a revival takes place and brings about a large expansion in the world market for British goods, increased consumption in Great Britain can be financed only by increasing the home supply of goods in such a way as to prevent any considerable expansion of total imports. This means in practice that it can be financed under present world conditions only by the expansion of home agricultural production, for there is clearly no other type of production capable of replacing imports on the requisite scale, so as to release resources devoted to export for the purchase of larger quantities of such imports as cannot be produced at home.

But now suppose that a world revival of industrial activity did take place on a really considerable scale. How far could we, in that event, look forward to a corresponding recovery and expansion in the volume of British exports? For some recovery we could obviously look with confidence, but for how much?

In all the foregoing calculations no provision has been made for a revival of British overseas investment. We have been considering what quantity of British exports has to be sold in order to pay for necessary imports. But clearly we can invest additional capital abroad only if we are able to increase our exports beyond this level. Now there can be no doubt that in the past the demand for British exports has been very largely stimulated by the lending of British capital to the less developed countries. In the years before the war, when we were exporting capital at a rate not far short of £200,000,000 a year, by far the greater part of what we lent was spent directly or indirectly in

purchasing British goods, and to a great extent this relation was direct, in that the sums lent to each country produced an immediate response in orders for British exports. If we had not been lending abroad on a large scale in the years before the war, our exports would have been much smaller in amount.

A recognition of this fact caused great emphasis to be laid on the necessity for a revival of British overseas lending in the decade which followed the conclusion of the war. There was, however, no need for any artificial measures to stimulate loans when once the immediate post-war dislocation had been overcome. In fact, Great Britain, during the greater part of the nineteen twenties, was lending new capital abroad to an extent considerably greater than her surplus of visible and invisible exports over visible and invisible imports really enabled her to finance. It was possible for this to be done only because foreigners were prepared during this period to accumulate short-term balances in Great Britain, so that in effect a substantial part of British foreign lending was made with foreign money deposited in the London market and therefore held only on a precarious tenure. It was above all the withdrawal of these short-term foreign funds in 1931 that drove Great Britain off the gold standard and made inevitable a complete cessation of British overseas lending.

Clearly a resumption of foreign lending by British investors would be calculated to bring about an expansion of British exports, though not necessarily to anything like the full amount of the loans—for there is no longer the same assurance that there used to be that the greater part of the money lent to foreigners by British investors will be actually spent on the purchase

of British goods. But even if a resumption of overseas lending did bring about an equivalent expansion of exports, this would obviously make no contribution to the problem which we have been discussing in this chapter, for these exports would have to be sent out over and above those required to pay for current imports. A country which is investing capital abroad requires not merely a balance between its imports and its exports, but a corresponding surplus of exports over imports—including, of course, invisible as well as visible items on both sides. It does not indeed follow that because there appears, on the basis of the existing figures, to be no surplus available for export of capital that it is therefore impossible for Great Britain to resume foreign lending. This was impossible while the total balance of payments was largely adverse; but now that receipts and payments have reached something like a balance a resumption of lending is possible to the extent to which it produces a response in increased exports. For, if the loans are required to finance the exports, the exports thereupon become a means of making the loans. It might be desirable, in order to stimulate the depressed exporting industries, to encourage a resumption of foreign lending on a significant scale, though not of course on anything like the scale on which loans were being made before the war. But this problem is wholly separate from the problem either of securing a sufficient volume of exports to pay for imports, over and above the exports representing the loans, or, alternatively, of so expanding home production of certain commodities as to make possible a rise in the British standard of living and a resumption of activity by the unemployed without re-creating a large adverse balance of payments.

We have, then, to consider, apart from the possibilities of foreign lending, the outlook for the leading exporting industries as we might expect it to be if a really considerable revival occurred in world trade.¹ Clearly this consideration can be only of the most general character, for a great deal would depend on the precise conditions under which the revival took place. But we can at least consider in general terms the outlook for certain of our great exporting industries under conditions of world revival.

The cotton industry, even in its present deeply depressed condition, is still by far the biggest exporting industry in Great Britain. It accounted, even in 1933, for not much less than one-sixth of the total value of British exports. Coal and iron and steel, taken together, accounted for another sixth. Next came, in order, machinery, woollen and worsted goods, and ships and vehicles, which are included in the official statistics as a single group.

It is impossible for anyone to argue that there is any good prospect of a recovery of our exports of cotton goods to anything like the level which existed before the war. As compared with the average of the pre-war years, British retained imports of raw cotton had already fallen in 1930 to not much more than one half. The quantity of cotton piece-goods exported to all markets shrank from over 7,000 million linear yards in 1913 to 3,765 million linear yards in 1929, and from 3,672 million square yards in 1929 to 2,031 million square yards in 1933.² India and China had both increased their output of cotton yarn to a very great

¹For figures showing the dependence of certain leading industries upon exports, see Appendix, Table IV.

²This method of presenting the figures is made necessary by a change in the official standard of measurement.

extent, and had expanded both their factory production of piece-goods and their output from handlooms. Among European countries, France, Italy, Poland, Spain, Holland and Belgium had all increased their output of cotton yarns. The European countries were more and more intensively protecting their domestic markets for cotton manufactures by means of high tariffs; while the countries of the Far East were coming more and more to supply their own needs. Japanese goods, produced with the aid of cheap labour and a highly efficient selling organisation, and helped by the depreciation of the yen, were more and more invading foreign markets, especially in the less developed countries, where they were ousting Lancashire from its trade. Lancashire was losing very fast her traditional markets for the cheaper kinds of cotton goods, and was being compelled to concentrate more and more upon the finer qualities or upon special lines. Quite apart from the effect of the world depression in narrowing the total market for exports of cotton goods, the market for British cottons was falling rapidly in face of sharply rising production in the Far East and of more intensive protection in the advanced industrial countries.

It is sheer fantasy to suppose that under any conditions of world economic revival Great Britain could regain her pre-war volume or real value of exported cotton goods. No possible reduction in Lancashire's costs could bring within reach the recovery of the greater part of the lost markets for the cheaper types of goods. The cotton industry, except for the finer qualities of product, lends itself exceptionally to the exploitation of cheap labour; and although actual costs of production are, in spite of differences in wage-rates, still not very different in Great Britain and in

countries with far lower standards of living, except for the cheaper classes of goods, the higher costs of marketing the British product impose an additional handicap in the way of the recovery of the greater part of the trade that has been lost. No one in his senses supposes that a return to world prosperity, even if it brought total world trade back to a satisfactory level, would carry with it a commensurate recovery in the volume of British exports of cotton goods. This could not be expected, even if the most thorough measures of rationalisation were carried through in the sphere of manufacture, and the greatest possible economics made through improved methods of marketing.

This does not mean that no recovery is possible for the British cotton industry. An expansion in the total size of the world market would bring with it a substantial increase in the demand for Lancashire goods. But this increase would inevitably be concentrated to a large extent upon the finer qualities, which cannot account for more than a limited part of the total trade, say at most one-third, until there has been a considerable rise in the standard of living in those countries which are the chief consumers of imported cotton goods. Lancashire must perforce concentrate mainly on developing and expanding her trade in these finer products; and that gives her a strong interest in any measures that will tend to raise the standard of living in the less developed countries. It is no doubt possible by discriminative trade measures to preserve for the Lancashire exporter some part of the market in the non-self-governing parts of the British Empire, even where it would otherwise be lost to the Japanese; but this can be done only at the cost of exploiting and antagonising the native consumer, and

assuredly it could not, under any circumstances, be carried to lengths which would make a substantial contribution to the expansion of Lancashire's foreign trade.

The British coal industry, which stands next to the cotton industry in the value of its exports, is also faced with increasing difficulties, owing both to increased foreign competition and still more to greater economy in the use of fuel and the increased use of oil and water power as sources of motive energy. British coal exports averaged 65,500,000 tons in the years before the war; but this amount has never been regained since 1918, even during the occupation of the Ruhr in 1924, which brought British exports up to 61,650,000 tons for that year. In 1929 they were about 60,250,000 tons, but in 1933 they had shrunk to a little over 39,000,000 tons. The market for British coal in South America, Scandinavia and the Mediterranean countries would doubtless expand if the general level of economic activity in those countries were to increase; and the prospect for an expansion of coal exports is considerably more favourable than the prospect in the cotton trade. It is, however, fanciful to suggest that coal exports could increase to such an extent as to make any very large contribution towards paying for an increase in total imports from abroad. There is doubtless relatively a greater possibility of expansion in the quantity of coal supplied for the shipping trade, which fell from 21,000,000 tons in 1913 to 15,600,000 in 1930, and 13,500,000 in 1933 (excluding coal used for coastwise shipping). But even a substantial revival of world trade would hardly raise the consumption of bunker coal to anything like the pre-war level, in face of the increased use of oil as a source of motive power.

Next in value of exports stands the iron and steel trade. In this case the position is highly complicated.¹ Great Britain has been hitherto predominantly an importer of raw and semi-manufactured iron and steel and an exporter of more finished steel products. This position is brought out clearly in the accompanying table, which shows a large surplus of imports of crude products, an approximate balance in the intermediate class of rolling-mill products, and a large surplus of exports of more finished goods. It will be seen, however, that the figures have undergone in recent years a very significant change. Between 1929 and 1933 retained imports of crude products were reduced to less than half, and exports of crude products almost disappeared. Imports of rolling-mill products were reduced to a third, and exports to less than half. Imports of finished products fell to one quarter, while exports were about halved. The more finished goods now account for three-quarters of exports, and the importation of this class of product has almost disappeared. The effect of Protection and of the change in the external value of the pound has been to reduce British imports of all classes of iron and steel products from 2,800,000 tons in 1929 to under one million tons in 1933, whereas British exports have fallen from 2,800,000 tons in 1929 to 1,900,000 in 1933.

In face of the unfavourable prospects for an expansion in exports in the great staple industries upon which British overseas trading has in the past been largely based, it is clearly necessary, if exports are to be maintained at a level which will make possible adequate importation of those goods which either

¹ For figures of imports and exports of iron and steel, see Appendix, Table V.

cannot be produced in Great Britain at all or can be produced here only at excessive cost, to use every possible effort for the development of those types of industry which offer the best prospects for expanding sales abroad. Great Britain, by virtue of the skill of her technicians and manual workers and of her position as a country with a relatively high standard of living, is clearly marked out to specialise in those types of production for which the demand is most dependent on the existence of a large consuming public living at fairly high standards of existence. In the production of cheap cotton goods, of crude iron and steel, and of many other products in respect of which the British *entrepreneur* had at one time a considerable advantage, there is now a positive disadvantage in relation to countries with lower wage costs based on a lower standard of living. But the existence of a large home market for goods appropriate to a higher standard of consumption still gives British industry an advantage in the development of new lines of production in response to changing needs and desires on the part of the public. Great Britain, if she is to make the fullest use of her opportunities both for satisfying home demand and for maintaining her position in international trade, needs to be constantly foremost in the development of new types of production based on the latest scientific and technical developments. In effect, however, an analysis of the composition of British exports speedily shows that in comparison with other leading industrial countries British exporters have relied to a very great extent on the maintenance of old lines rather than on the development of new forms of supply. The trade in the newer types of product has been developed so far more by the United States, and

more recently Japan has also entered this field to a steadily increasing extent. The United States doubtless has done this largely because the existence of a very large home market with a high average of purchasing power has given her a basis for the growth of new trades and industries whose product she has then been able to place advantageously on the world market on account of the decreasing costs of large-scale production. But Japan has obviously no similar advantage, and can invade the new lines of production only by producing principally for export; for her domestic standard of living is still far too low to allow of the existence of any wide home market for goods of these types.

This does not mean that Great Britain is under the necessity of developing totally new industries and of discarding the industries on which she has hitherto relied. The trade in cotton goods is, indeed, bound to remain at a low level in comparison with its pre-war volume; and in this case there can be no compensation on any large scale through the development of alternative kinds of cotton manufactures. But the newer trades and industries are to a large extent based on working up into finished form the products of the metal and engineering trades; and accordingly what is required in this field is not so much a discarding of the older industries as an adaptation of them, especially in their finishing branches, to the changing requirements of domestic and foreign markets. Something has been done in recent years to bring about this adaptation in the motor and electrical engineering industries; but a great deal more needs to be done if the newer and lighter forms of production are to provide an adequate substitute for the decline in the volume of exports in the older basic trades.

As we have seen, a rise in the standard of living in Great Britain, brought about by means of a plan involving the full use of productive resources, would considerably change the character of demand in the home market, creating especially a larger demand for precisely those types of product for which there is the best prospect of an expanding foreign market. Thus the course of development of the home market under a system of planning such as I have outlined in the previous chapters is likely to make easier the retention by Great Britain of a sufficient export trade to enable the purchase of imports to be maintained at a satisfactory level. This, however, will not come about automatically, for it demands considerable concentration upon the problem of industrial research in the newer trades and a deliberate replanning of the older industries so as to fit in with the changing needs of consumers at home and abroad. To bring about this adaptation will be an essential part of any national plan. For the success of planning depends on adapting the structure of production both to the needs of the domestic market and to the changing possibilities of the world market under a system of organised mutual exchange.

CHAPTER XIV

A FORECAST OF PLANNED INDUSTRY

THROUGHOUT this book the assumption has been made that the object of national planning will be to secure the fullest possible utilisation of the available productive resources. It has been made clear, however, that this cannot be a matter merely of increasing the total quantity of production, for any increase in production that is to add to the real wealth of the community must be properly balanced in relation to a corresponding expansion in consumers' demand. We must produce more of those things of which our people want more, or alternatively of those things which we can exchange for things of which our people want more. I have already discussed the bearing on this question of the outlook for British overseas trade, and I have attempted in earlier chapters to suggest the broad principles that must govern a planned economy in choosing between one branch of production and another. How much further than this is it possible to go in advance of the actual institution of a plan? It is clearly impossible to draw up even in the barest outline the production budget of a planned economy, both because it is impossible to say under what conditions such an economy will be introduced and because the necessary data cannot be available except to an authority equipped with the fullest information both from producers and from traders, who mediate between the producer and the

consumer. Nevertheless, short of attempting to draw up a plan of production even in the barest outline, it is perhaps possible to give certain indications of the types of production which a planned economy would be faced with the necessity of expanding to the greatest extent at an early stage, although I am fully conscious that even the most general adumbration of the future course of demand is subject to a very wide margin of error owing to changing tastes and social conditions.

For the purpose of considering what forms of production it would be most essential to expand I shall take three alternative suppositions.

In the first place, let us consider what would be the effect on demand of bringing the unemployed back into work, and thus restoring them to standards of living comparable with those of the rest of the working class, without any alteration in the real wages or conditions of workers already in employment, save to the extent to which workers now on short time would be brought back into full work.

Secondly, let us consider the effect, over and above this resumption of activity by the unemployed, of an average rise of ten per cent in the standard of real incomes for the great mass of the community, including not only the wage-earners but also those in receipt of middle-sized incomes from salaries, profits or interest, or from the land.

Thirdly, let us consider the effect on demand, over and above the two previous effects, of a further rise in the standard of living for all the poorer sections of the population, accomplished partly, but not entirely, by means of a substantial curtailment of the larger incomes.

The effects of these three types of addition to the total volume of demand will be by no means the same, and a planned economy will accordingly work out differently in practice according to the changes in the distribution of income by which its institution and development are accompanied.

First, then, what would be the effect on demand of a return to work of the unemployed at the prevailing levels of wages, and of a resumption of full-time working by those now on short time? Clearly a large part of the additional purchasing power of the unemployed would go into the purchase of additional foodstuffs and clothing and to the renewal of household requisites which have been sold or worn out during the period of economic distress. There would not be much, though there might be a little, additional demand for breadstuffs; but there would be a substantial increase in the demand for meat, butter, fruit, fish and eggs, and indeed the entire range of more expensive foodstuffs falling within the working-class standard of consumption. There would be also some increase in the amount spent on entertainments, on gramophones and wireless sets, and on other small luxuries, as well as upon beer and other drinks. There would certainly be a substantial rise in the consumption of tobacco, which is one of the luxuries of which the deprivation is most felt by a large proportion of the unemployed. In addition, substantially more would be spent on light and warmth, so that coal bills and gas bills and also electricity bills, where electricity has penetrated into the newer working-class quarters, would increase to a very substantial extent. The present level of unemployment is about 16 per cent of the whole body of wage-earners; but to this a substantial further addition

must be made on account of forms of short-time working which are not represented in the statistics. On the other hand, some deduction must be made on account of the lower level of unemployment in certain occupations, such as agriculture, and some of the professions such as teaching, which are not covered by the statistics. The gross total addition to wage and salary incomes as a result of the complete absorption of the unemployed and the under-employed would be in the neighbourhood of 20-25 per cent. But against this there would be the disappearance of the sums now paid in unemployment benefit and other forms of relief to unemployed workers. These sums, as far as they are derived from taxes or local rates, are deducted mainly from other incomes; as far as they are raised by means of contributions from the workers themselves, they are deducted from existing wage incomes, and only as far as they are derived from employers' contributions do they not figure in incomes at present. The remission of these charges would increase the purchasing power of the workers already in employment and of all other persons who benefitted by the lower taxes. Accordingly, the net addition to the purchasing power of wage and salary earners from this cause would be not much less than the gross addition—say a total addition of 20 per cent to the existing total of wages and lower grade salaries and a much smaller addition to higher salaries. Very roughly, the total net addition to wage- and salary-earners' purchasing power might be round about £350,000,000. It might even be nearer £400,000,000.

Now consider what would happen if, on top of this reabsorption of the unemployed, a rise of 10 per cent took place in the average level of income over the

whole community, without any material change in the proportional distribution of incomes between different classes. What would be the effect of this second increase in demand on the level and character of the total consumption of the community? Clearly a much smaller proportion of this second increase would be devoted to the purchase of foodstuffs, even of the higher types. There would be some addition, particularly to the amounts of fruit, butter, vegetables and butcher's meat; but the total addition to the bill for foodstuffs would be very much smaller in proportion than in the first case. There would probably be no addition at all to the demand for breadstuffs, though there might be some indirect increase in the demand for wheat through its greater use for chicken food and other similar purposes. This increase, however, might well be offset, or more than offset, by the substitution for bread of more expensive foodstuffs in consequence of the rise in the standard of living. On the other hand, the demand for clothes would certainly rise very sharply indeed, and there would be a further increase in the demand for tobacco and alcoholic drinks. There would be a very brisk stimulus to the trades producing gramophones, wireless, furniture, pottery and glass, and other household requisites. A good deal more would be spent on both entertainments and sports; and this would carry with it a demand for increased building of cinemas and halls of various kinds and for the provision of sports grounds and sporting requisites.

With this increase in entertainments and sports would go a marked increase in the amount of travel. Improved transport facilities would have to be provided in the neighbourhood of the towns; and the railways and long-distance motor coaches would have to prepare

themselves for a considerable increase in the volume of traffic. There would be many more cheap motor-cars and motor-cycles, with a corresponding increase in the building of new roads and the provision of petrol stations, garages and so on. House-building activity would be considerably stimulated by the desire of an increasing number of families to move out of rooms into houses or self-contained flats; and this speeding up of housing development would carry with it the need for the provision of all the amenities with which every new housing settlement needs to be provided. There would be a greater demand for electricity, both directly for domestic consumption and as a consequence of the stimulus to the lighter industries, which are large users of electrical power. More books and newspapers would be sold, so that the printing industry would receive a considerable stimulus in all its branches.

Of course all these forms of demand would work back from the finishing industries to those producing intermediate goods. The rise in the demand for clothing would give a considerable stimulus to the woollen and artificial silk industries, and in a much less degree to the cotton trade. The demand for motor-cars and cycles and other light metal goods would do something to stimulate the steel industry. The demand for houses would react on the brick-making, wood-working, light-casting, and numerous other trades. The increased demand for electricity and for industrial power would stimulate the coal industry, over and above the direct stimulus of higher domestic consumption. In fact almost every industry in the country would feel sharply the effects of the stimulus, with the exception of the cotton industry—for which the home

market is so small in relation to the export market that even a large increase in the demand for clothing would have only a fractional effect—and ship-building, the degree of stimulus to which would depend on the course of import and export trade rather than directly on the expansion of total demand. Finally, if the assumed rise of 10 per cent all round in the purchasing power of incomes extended to the upper classes, there would be a substantial revival of demand in the luxury trades and also a very considerable stimulus to investment in industrial enterprise, which would react favourably on the position of the steel and engineering industries, as the chief suppliers of productive capital goods.

Now consider our third assumption. We are now assuming a rise of substantially more than 10 per cent, say of one-third, in the lower ranges of income, accomplished not only by increasing total production, but also by diminishing the share of total wealth accruing to the possessors of large incomes. Broadly, the increases in demand which would follow this further addition to the volume of purchasing power would be of the same order as the increases which we have been considering under our second assumption, but with an intensification of the demand for the commoner types of luxury goods and with a further diminution in the rate of increase in the demand for foodstuffs of all kinds. There would be comparatively little addition at this stage to the demand for most types of foodstuffs, with the exception of fruit, and of certain highly specialised products, and against the increase in the demand for these, there would have to be set some fall of demand arising from the diminution of the larger incomes.

The parallel consequences of reducing the larger incomes are far more difficult to predict; for a great deal would depend both on the extent to which this diminution was carried and on the methods adopted in providing for the further accumulation of capital. Clearly, if a large drop occurred in the incomes of the rich, there would be a tendency for them at the outset to curtail their consumption by considerably less than the amount of the fall in incomes, with a consequent sharp drop in the volume of capital accumulation from this source. There has, however, been already in recent years a very rapid decrease in the proportion of the national savings coming from large personal incomes; and it is easy to exaggerate the effect on accumulation which their further curtailment would have, unless it so reacted on the financing of the joint stock system as to cause companies to deplete their reserve funds and to pay out in dividends sums which they would otherwise have applied to the accumulation of fresh capital. This would almost certainly occur unless steps were taken to prevent it. But either by preventing it or by making alternative provision for the collective accumulation of capital, the State would clearly have to provide for the continuance of an adequate capital supply. Some contribution would doubtless be secured, if the existing methods of accumulation were kept in existence, by a substantial addition to the savings made by the recipients of the smaller incomes, who have been responsible in recent years, even under the conditions of depression, for a very largely increased proportion of the total national saving. We are not, however, here concerned with the method by which the necessary accumulation of capital would be made under the changed conditions, but only with the fact

that in one way or another it would obviously need to be made, so that a fall in the large incomes would not be allowed to produce any adverse effect on the demand for capital goods. Indeed, in order to bring about the substantial rise here contemplated in total consuming power it would obviously be necessary to provide for a substantial increase in the total amount of capital accumulation; and if this provision were made collectively under the auspices of the State, as I have suggested earlier in this book, it would cause the increase of demand brought about under my third assumption to be much less different in character from that which would be brought about under my second assumption than would at first sight appear.

I am well aware that what has been said in the preceding paragraphs has been only the broadest kind of generalisation; but it is unfortunately quite out of the question to give these generalisations any precise quantitative form. We can only guess in the broadest way what the course of increased demand would be likely to be under a series of assumed conditions, leaving the actual plan to be worked out when the time comes in the light of much fuller information than can possibly be accessible to a single private investigator.

We can, however, perhaps throw some further light on the character of the problem by considering certain of the available statistics bearing upon the course of economic change in recent years. With this object in view, I have set out in the accompanying table¹

¹ See Appendix, Table VI. I have also given, for purposes of comparison, the available figures from the Population Censuses of 1921 and 1931 for (England and Wales only) showing the changes in occupational distribution of the population between these two dates. See Appendix, Table VII.

certain figures which illustrate the actual present magnitude and also the expansion and contraction in recent years of all the trades and occupations covered by the unemployment insurance scheme, together with a few particulars about certain of the uninsured trades. At the same time I have shown for each insured trade, and in a simpler form for the uninsured trades where any information could be obtained, the current amount of unemployment, as at least some indication of the amount of productive resources at present lying unused. I am of course aware that the existence of a large volume of unemployment in a trade does not necessarily indicate the parallel existence of other usable resources which are not at present being employed in production, and also that many trades which show only a comparatively small proportion of unemployed could in fact very rapidly expand their output if demand were to increase. This latter is especially the case with the newer industries providing final consumers' goods; for in most of these industries the capital equipment does not take any very long period to install, and the problem of transferring labour from other occupations is fairly easy to deal with, both because the necessary types of machine dexterity for most of these occupations can be acquired with relative ease, and because the far smaller quantity of highly-skilled labour that is needed mostly belongs to types that are already available in considerable quantities.

In this table I have not followed the arrangement of trades under the group headings used by the Ministry of Labour, but have attempted some rearrangement corresponding very broadly to the types of consumers' demand to which the various trades are related. Thus I have put in the forefront the building and contracting

group of trades, including all those smaller trades which work chiefly as suppliers for the building and contracting industries, and next to the building and contracting group I have put the furniture trades, the demand for whose products obviously bears a very close relation to the degree of building activity. It will be seen that both these groups of trades have in recent years considerably expanded their labour force, and that in nearly all of them the numbers actually employed in 1933 were substantially higher than the numbers actually employed ten years before. This increase is very marked indeed in the building trades, which, as a consequence of housing activity in recent years, have increased their index of actual employment over the eleven years by no less than 32 per cent. But despite this very great increase in actual employment, there remains in building and in practically all the other trades included in the group a large reserve of unemployed labour. This reserve is much largest in the contracting trades, because the effect of public policy in road building and other forms of public contracting in recent years has been to attract into these trades a much larger total volume of labour than has been given anything like continuous employment in them. Thousands upon thousands of workers have been transferred from other occupations to public works contracting only to find themselves after a spell of employment once more workless. It is true that, despite the substantial number of unemployed in the building industry and the related trades, this unemployment is very unevenly distributed among the different building crafts, so that it would not be possible immediately to absorb all the unemployed builders into work without taking special measures to increase

the supply of workers in those crafts in which the surplus is comparatively small. But this problem was successfully faced in 1924 by Mr. Wheatley; and there is no reason why it should not be successfully faced again as soon as the assured establishment of a national plan based on the continuous full use of the available productive resources has removed the objections which the craftsmen at present feel to the introduction of any special system of training liable to result, at some sudden change of housing policy, in a serious redundancy of skilled workers.

In the furnishing and kindred trades there has been, as a direct result of housing activity, a considerable increase in the index of actual employment over the past eleven years. In this case the available supply of surplus labour is at present relatively small, but there would be no difficulty in rapidly expanding both labour and factory equipment on the required scale. Indeed, the furnishing trades are so suitable a field for increased mechanisation that output could probably be increased at a rate very much in excess of the increased employment of workers.

The next group of trades, which I have grouped together under the head of public utilities, includes the great expanding group of services connected with electricity supply. If it were possible to isolate the figures for electricity supply from those for gas and water, the increase in the actual employment index would come out very much higher than the available figures show. This expansion is of course very largely due to the operation of the grid system and to the great activity which this has involved in the renovation and adaptation of electrical appliances of all sorts. If electricity development were to stop short at the stage

which will soon be reached with the completion of the grid, there would be a danger of serious unemployment in the trades producing electrical machinery and appliances. But, as we have seen, the completion of the grid ought to be followed up by a second scheme on a no less ambitious scale for the effective electrification of the less densely populated areas.¹ This second scheme would suffice to keep the whole group of electrical trades busy for a long time to come. The rate of expansion in these trades has been in recent years too rapid to allow for the existence of any very large volume of unemployment; but again the experience of creating the grid system has shown that there is no real difficulty in the way of a rapid expansion in the supply both of workers and of factories for producing electrical plant and appliances.

In the next group I have brought together the trades chiefly concerned with the production of food, drink and tobacco. All these trades, with the single exception of cocoa and confectionery, in which mechanisation has been advancing with considerable rapidity, show an expansion in the volume of actual employment over the past eleven years, and most of them show a relatively low percentage of workers unemployed. There is in most of these trades, except fishing, no great surplus of productive capacity at present available, so that the increase in demand for the higher types of foodstuffs contemplated under the assumptions made earlier in this chapter would involve considerable additions to both the personnel and the capital equipment of this group. There would, however, be no great difficulty in bringing this about. For almost all the trades likely to be affected by the increase of demand

¹ See page 128.

are capable of increasing rapidly their capital equipment, and in most cases their demand for labour includes a high proportion of workers of the less skilled types, who could be readily transferred from other occupations.

Next to the food group I have placed a highly miscellaneous group of trades and industries concerned with the various types of household and consumers' supplies, from brushes and brooms and pottery and glass at one extreme to musical instruments and sports requisites at the other. With this group I have included the large *omnium gatherum* of the miscellaneous metal trades, which embrace a large proportion of industries engaged either in producing miscellaneous consumers' goods or in preparing semi-finished commodities which will finally pass into finished consumers' goods. In this group the index of actual employment over the past ten years shows varying fortunes. Three groups of trades—pottery, watches, clocks and jewellery, and the oil, soap, ink, etc. group—show an actual decrease, and in the case of pottery this decrease is due to a fall in exports and not to a diminution of domestic demand. The remaining trades included in the group show varying rates of increase, most substantial in the case of scientific and photographic apparatus, which includes the preparation of films. Clearly this group of trades would be very greatly affected by an addition to the standard of income of the great mass of the consuming public. Except in the case of pottery, the reserve supply of labour is below the general average of unemployment for all trades. But again this group consists largely of trades in which capital equipment could be rapidly expanded, and into which surplus labour from other occupations could be easily transferred.

In the next group I have placed the clothing trades, which again show varying fortunes. The largest rate of increase in actual employment is shown by the shirt and collar-making trades, and the next largest by the hosiery trade. But tailoring also shows an increase. Boot and shoe making, on the other hand, shows a decline, due mainly to the fall in exports but also to growing mechanisation; and dress-making and millinery and the minor dress trades have also declined, chiefly owing to changing methods of production and consequent changes in industrial classification. In all these trades, except the boot and shoe industry, the rate of unemployment is relatively low. But obviously an increase in demand could here too readily be met. The clothing industries, apart from the boot and shoe industry, have at present an extraordinarily low rate of average mechanisation; but mechanisation could easily be carried much further in face of a substantial increase in the more standardised types of demand, such as would be likely to follow an expansion in the working-class standard of living.

Next to the clothing trades I have set the textile trades. But here, far more than in any of the groups hitherto considered, the position is complicated by the importance of the decline in exports. Apart from miscellaneous textiles, which include a wide range of mixed and unclassifiable products, the only textile trade which shows an expansion in actual employment is the silk and artificial silk group, which has expanded over the eleven years in question by no less than 86 per cent,¹ though the number of workers it employs is still

¹ The figure for actual employment in the silk and artificial silk trades for 1934 is wrongly given in the *Ministry of Labour Gazette* of December 1934 as 121. The correct figure is 186.

only one-tenth of the number employed in the cotton trade. Clearly, the expansion of the artificial silk industry may be expected to continue, and can be continued without difficulty, as its demand is chiefly for unskilled forms of labour, and there is no shortage of factories capable of producing the requisite capital equipment.

The cotton trade, on the other hand, can receive only a small stimulus from any possible expansion of the home market, and must depend for any real recovery on the expansion of its overseas sales. Its prospects in this field have been discussed in an earlier chapter and need not be reconsidered here. It is, however, clear that the cotton industry, in which the index of actual employment has already shrunk by 18 per cent over the past eleven years (and had already shrunk greatly in comparison with the pre-war position even before 1923), will be among those industries which will be in the position of transferring labour to other expanding trades. The problem of transference is here very largely geographical; for the wholesale transference of unemployed cotton operatives from the Lancashire cotton area is clearly out of the question.

This constitutes a strong reason for endeavouring to establish a sufficient proportion of the new or expanding trades for which the plan will have to make provision in the Lancashire area. To a less extent the woollen and worsted trades present the same difficulty. The index of actual employment in these trades has shrunk over the past eleven years to an even greater extent than the index for the cotton trade—actually by 25 per cent. But the position is less serious because there had been no corresponding shrinkage before 1923.

The woollen and worsted trades depend less on export than the cotton industry; but their dependence is considerable enough to make any revival of the older levels of employment impracticable solely through the extension of the home market. Only if foreign demand recovers are the woollen and worsted trades likely to expand to the level of employment which was theirs in 1923. There is, however, far more likelihood of their expanding than of the cotton industry recovering its lost markets, and it would therefore not be safe to assume the existence of a large permanently transferable surplus of labour in this case. The lace and linen industries, on the other hand, must be regarded as permanently reduced in scale, and as providing at least some surplus of labour available for transference to other occupations.

We come next to the printing and paper group. It will be seen that all the trades falling within this group have substantially increased their volume of employment since 1923, and that all of them show a relatively small percentage of workers unemployed. There would be difficulty in bringing about any very rapid further expansion in the output of these trades, in which the labour required is for the most part of relatively high skill. But the rate of expansion, though likely to be considerable over a period, would not be so rapid in this as in the other cases we have been considering in face of a sudden expansion in total consumers' demand; and in practice it is probable that no difficulty would be found in bringing about a sufficient increase in production over a period of years.

We come next to that group of occupations which has made by far the largest single contribution to the expansion of the volume of employment during the last

ten years. The distributive trades as a group employed in 1934 over two million workers. The numbers engaged in them have increased in the past eleven years by 55 per cent, and the increase has continued in spite of the trade depression. It is natural to regard this increase in the proportion of workers engaged not in producing goods but in distributing them with some misgivings, especially when it takes place in a period of general contraction in the volume of output. It is, however, to a substantial extent an inevitable consequence of changing social conditions. The redistribution of population by means of new housing schemes has carried with it the necessity for the opening of a vast number of new shopping centres, without causing any corresponding contraction in the number of shops still open in the older centres. There has been at the same time, in consequence of improved transport facilities, an expansion of big shopping areas in the centres of towns; and as long as the process of redistributing the population over the face of the country is proceeding fast, and the distribution of goods is left in the hands of private enterprise, the rate of opening new shops is likely considerably to exceed the rate of closing old ones. Nor can there be any doubt that the standards of quality in distribution have risen. Consumers have grown to expect more palatial shops and more attention to their wants, and they have also taken to carrying home for themselves a far smaller proportion of their purchases, so that there is a greatly increased demand not only for transport, but also for packing and wrapping and invoicing. This inevitably increases the cost of handling goods, and the numbers of persons employed in handling them in relation to the numbers engaged in production. It has been an important

factor in widening the margins between wholesale and retail prices of manufactured commodities, and is causing as an antidote the very rapid expansion of Woolworth's and other shops which specialise in lowering distributive costs, and thus offering the consumer supplies at a lower price.

It seems impossible to doubt that there is at present a very great redundancy of persons engaged in retail distribution. On the one hand, competitive display has forced up costs beyond the real means or desires of many of the poorer consumers; and on the other hand, the opening of shops in new centres, without a parallel reduction in areas where the population is being reduced, has caused traders either to increase their margins or to accept in default of this a lower standard of living in the areas of decreasing trade. As long as the distributive trades are allowed to go on expanding without check or regulation, they will continue to expand, though probably at a diminishing rate. But a planned economy, faced with the problem, not of finding outlets for surplus labour, but rather of finding sufficient labour to carry through an expanding programme of production, will be unable to tolerate the enormous waste that is involved in the existence of a quite unnecessary number of persons engaged in distribution, including not only the two million insured workers in the distributive trades, but also the 625,000 persons recorded as private shopkeepers in the census of 1931.

The next group illustrates the highly diversified fortunes of the transport services. As railwaymen are only in part insured under the Unemployment Insurance Acts, permanent employees of the railway companies being excepted from insurance, the figure

purporting to give the index of railway employment is seriously misleading. I have therefore added in the supplementary figures at the end of the table an alternative figure showing the actual degree of contraction in the volume of employment when all railway workers are taken into account. It will be seen that the number of railway workers has fallen over the past ten years by 17 per cent. On the other hand, both the groups concerned with road transport show a very sharp rate of increase in the volume of employment—70 per cent for trams and buses, and 47 per cent in the case of other road transport—while motor vehicle manufacture shows an expansion of 43 per cent, despite increasing mechanisation and the greater use of smaller and lighter cars. This tendency of road transport to increase is certain to continue, for there is no great room for a reduction in personnel through increasing mechanisation, and any rise in the general standard of living would certainly bring with it a great increase in the demand for road transport facilities for both passengers and goods. This does not mean that railway employment is likely to contract. Indeed, even the small improvement in the volume of production in industry which has taken place over the past year, combined with some increase in passenger travel, has raised the index for railway employment some points above where it stood in 1933, and any resumption of general industrial activity on a substantial scale would certainly mean largely increased use of the railways as well as of the roads. The expansion of railway employment would, however, be relatively slow, as the railways have learnt during their difficulties of recent years many methods of economising in the use of labour.

Shipping, already seriously depressed in 1923, shows hardly any further fall in the volume of employment since that date. It has still a very large surplus of unemployed labour. Docks, harbours and canals, on the other hand, show a sharp contraction in the volume of employment, corresponding to the great fall which has taken place in foreign trade, especially in export trade, during the past few years. They, too, have a large surplus of workers available, so that they would be more likely, even in face of an expansion of trade, to transfer workers to other occupations than to require an addition to their labour force, especially as there is still considerable room for the further development of mechanisation in many of the ports.

Both shipbuilding and marine engineering show an index of actual employment which has fallen very heavily indeed over the past eleven years, and have very high percentages of workers unemployed, despite a considerable degree of transference to other occupations. In these cases revival obviously depends on two factors—an expansion in the general volume of foreign trade and especially of British exports, and the possibility of recovering the market for the sale of new shipping abroad. There is indeed a considerable amount of old tonnage now afloat or in reserve which would probably be scrapped fairly speedily in face of any substantial revival in the volume of trade. But, even allowing for this factor, the British shipbuilding industry has clearly far more than enough personnel available to meet any likely expansion under a national plan, even if this expansion were part of a big movement towards a recovery of world trade. Shipbuilding, too, is among the industries which will be called upon to transfer labour to expanding occupations under a national plan.

The engineering industry embraces so large a variety of separate trades that little can usefully be said about it in general terms. Its total index of employment shows a contraction of 12 per cent, very unevenly spread among the different branches. This contraction, which was much more severe in 1932 and 1933 than in 1934, is the consequence of the sharp decline in the demand for new capital equipment during the years of depression; and any expansion in the total volume of production under a national plan would clearly carry with it a greatly increased demand for engineering products. The engineering industry has also suffered a sharp fall in the volume of its exports, and would stand to gain substantially in this field by a revival of world trade and more especially of overseas investment. But even apart from the consequences of such a revival it seems probable that as a consequence of increased activity under a national plan the demand for engineering workers would rise to a fully sufficient extent to absorb the available supply of surplus labour, which has been considerably reduced by transference in recent years. There might indeed be some danger of a shortage of highly skilled labour owing to the fall in recent years in the number of apprentices undergoing training for the higher branches of craftsmanship.

When we turn to the group of trades concerned with the manufacture of metals we see at once that, whereas all these trades have undergone a reduction in the volume of employment over the past eleven years, the fall has been far sharper in the trades producing crude and semi-finished metal goods than at the finishing end. Iron mining and blast furnaces have suffered contractions of 41 and 49 per cent, and crude iron and steel

manufacture of over 20 per cent, whereas the finishing trades have maintained their volume of employment relatively well. The tinplate trade, indeed, has been seriously affected by the loss of exports, partly as a result of the American depression, but also partly as a result of the protective policy which has forced up the domestic price of crude steel. More than any other group of trades, the metal trades have been favourably affected during the past three years by the operation of the tariff system, which has secured to them a greatly increased proportion of the home market, almost to the exclusion of most types of imports which can be produced at home at anything like a tolerable cost. The demand for crude iron and steel has been to some extent reduced by the increasing use of scrap; and the demand for most types of steel has undergone a further diminution owing to the production of finished goods of lighter kinds. For this reason an expansion in the finishing trades using steel products would probably to-day not bring with it a proportionate expansion in the demand for steel; but clearly a revival in the engineering industry, owing to an increased demand for capital goods and for constructional steel for factory and other buildings, would carry with it a large increase in the total domestic demand for steel, even apart from the possibility of an expansion of exports. There is, however, no doubt of the ability of the iron and steel industry rapidly to expand its production to the required extent, or of its possession of the requisite reserves of skilled labour. The only problem is one of cost. It might be found that considerable economies in production could be made by the scrapping of a good number of the existing plants, especially in the iron industry, and the creation

of new and more economic combined units for iron and steel manufacture. This would increase for the time being the demand for iron and steel products; for the iron and steel industry would be called upon to provide the greater part of the materials for its own re-equipment.

The coal industry naturally shows a very great fall in the volume of employment which it provides—the greater because in 1923 its activity was somewhat above the average of the post-war years up to 1929. Under the conditions postulated by a national plan, the demand for domestic coal would presumably undergo a considerable increase, save to the extent to which it was replaced by the increased use of gas and electricity as means of domestic heating, in which case the reactions on the coal industry would be indirect. Expansion in the iron and steel industry would be the largest single factor which could be reckoned upon to improve the prospects of coal mining. For electricity would expand largely at the cost of other uses for coal, and the net result of extended electrical development would probably be some fall in coal consumption. Another large section of the coal industry depends on the demand for bunker coal, which is in turn dependent on the activity of shipping, chiefly in foreign trade. Increased activity on the railways would bring a largely expanded demand for coal; and a more diffused increase would result from any generalised expansion of industrial activity. Finally, the coal industry depends upon its ability to sell exports, and there is no doubt that the policy of a national planning authority would be directed largely to creating overseas markets for British coal by way of the bulk exchange of products.

There are, indeed, very strong reasons, in this industry as distinct from most others, for endeavouring under a national plan to maintain demand at the highest level compatible with considerations of cost. Fuel economy tends to reduce the total demand for coal as industrial technique is improved, but coal miners are among the most difficult of all classes of workers to transfer to other occupations. This does not mean that transference is difficult in the case of the individual who is fairly young, but that the problem of transference here assumes, owing to the high proportion which direct labour cost bears to the total cost of production in so great an industry, such large dimensions as to present a very difficult problem. Moreover, not only is the capital sunk in the coal mines almost completely incapable of being transferred to other uses, but also the mining areas contain vast investments of other forms of capital for the supply of local services. These would be entirely forfeited by the closing of the mines in any particular area, unless it were possible to develop alternative industries in the same place. It is probable that the scale of mining is destined to be permanently contracted in this country unless means can be found of producing oil from coal at far lower costs than seem to be within the range of present possibilities. But there is every reason for easing the process of transferring miners to other occupations, and accordingly for maintaining coal output at a high level for some time to come. This cannot be a sufficient reason for standing in the way of changes in the utilisation of fuel which are clearly desirable on economic grounds; but it is a reason for making every possible effort to discover new uses for coal and its by-products and also for keeping up exports to the

highest possible level. Even if all these things are done, the rapidly increasing degree of mechanisation in the coal mines is likely to leave a sufficiently formidable problem of transference to other occupations still to be faced.

The chemical group of trades is among those which have undergone the most extensive rationalisation in recent years. The output of the industry has been rising in both volume and value, but there has been only a small increase in the number of workers actually employed, in consequence of the concentration of manufacture at the best equipped works. In these circumstances there remains a substantial surplus of plant available for use and a sufficient volume of redundant labour to allow a considerable expansion of output to take place, even apart from the fact that a high proportion of the labour engaged is unskilled and therefore capable of being drawn in at short notice from other industries.

Passing over the group of miscellaneous manufactures, which presents no features of special interest for our purpose, we come to the miscellaneous services. It will be seen that all the services included in this group, with the exception of the national government service, which has been gradually scaled down in recent years after its great increase during the war, show a very large rise in the index of employment. This rise is greatest in the occupations concerned with entertainments and sports; but hotels and restaurants are not far behind, and there has also been a very large increase in the number of workers employed in laundries. These indications of a change in the occupational distribution of the population square with what has been said earlier in this chapter about the changing character of consumers' demand. Indeed, the rapid

increase of this group, even more than that of the distributive trades, indicates what is certain to be a permanent shift in industrial activity as productivity increases. Rationalisation of the distributive trades might bring about a very large reduction in personnel; but it is certain that, if the standard of living rises materially for any section of the population except the very worst paid, there will be a large increase in the services just mentioned, and also in the more diverse group of professional services.

The figures dealing with professional services in the table of course cover only insured workers; but from the supplementary figures at the end it will be seen that there has been a rise in the number of medical practitioners, sick nurses and teachers as well as in the insured sections of professional work. It will be seen further from the supplementary part of the table that between the censuses of 1921 and 1931 there was a substantial increase in the number of domestic servants. This, however, is not a long-run increase but a partial recovery from the great fall in the number of domestic servants which took place during the war.

The rise in the numbers engaged in the local government services is also large. This is the result of the great extension of local government activity in recent years, both in relation to housing and over a wide range of non-industrial activities. Under a planned economy these categories would cease to have any very clear meaning. A far larger volume of services would obviously be conducted under either national or local government auspices; but the line of classification as between socially controlled industries and the national and local Civil Services would obviously not be drawn at the same point as it is now.

It remains to add a few words concerning the supplementary part of the table. As I have explained already, the supplementary figures for railway workers are added in order to correct the misleading impression given by the figures in the main table, which relate only to the section of the railway workers insured under the Unemployment Insurance Acts. For domestic servants, nurses, doctors and teachers I have given an unemployment percentage calculated from the census returns of 1931. This, of course, is only very rough; but it suffices to indicate a very low level of unemployment in the professions covered, and one rather surprisingly high, although very much below the average level of unemployment in industry, for domestic servants.

In the case of agricultural workers, I have given figures relating to all the four categories included in the Census, as it is not easy to determine a precise line between employees and employers on the land. Except in the case of gardening, there was a substantial decline in the number of land workers between 1921 and 1931, greatest in the case of agricultural labourers in the narrower sense of the term and smallest in the case of farmers. The percentage of unemployment among agricultural labourers recorded in the Census is unexpectedly high, though it is well below the industrial average. Clearly it is impossible to forecast the degree to which agricultural employment would be likely to expand under a planned economy. But, as I have pointed out elsewhere in this book, even if a considerable expansion of agricultural output were to take place, it is most unlikely that there would be any corresponding increase in the number of workers engaged in agriculture. For the most economical way

of increasing output would undoubtedly involve a higher degree of mechanisation and a smaller expenditure of labour per unit of output. There is no doubt of the adequacy of the population still working on the land to accomplish a considerable increase in agricultural output if this should be thought desirable under the plan.

Let us now turn to the tables which show the relative importance of the main industrial groups as recorded in the Census of Production of 1930, and the degree and form of industrial development in each of these broad groups.¹ In the first table of this series I have shown, first, the value of output for 1924 and 1930 for each of the main groups included in the Census, giving in each case two figures, one for gross and one for net output. The figures for gross output record the total selling value of the product of the group of industries in question, including the value of materials used up in the process of production. This, of course, involves a great deal of duplication where products manufactured by one trade are subsequently worked up by another. In the figures of net output this duplication is eliminated by deducting from the sale value of the product the value of materials and ingredients used up in the productive process by the trade the value of whose output is being recorded.

Side by side with these broad figures for the main groups of industries I have given separate figures, of net output only, for the main separate industries included in each of the groups. These figures furnish the best general indication of the relative economic importance of the products of the leading industries of Great Britain, as they were in 1930. It has, however, to be remembered that all these figures are records

¹ See Appendix, Tables VIII and IX.

of monetary value and not of quantities of output. They are therefore affected by price changes. Thus the total value of the net output recorded in the Census of Production fell from £1,526,000,000 in 1924 to £1,432,000,000 in 1930. But this fall was very unevenly distributed over the different industries, not only on account of changes in their relative physical output, but also on account of differences in the variation of the prices which they were able to command for their products. In all cases, where the value of a product is directly affected by the imposition of taxes on a commodity, the amount of the tax has been excluded. Thus the figure for brewing in 1930, which appears as £43,000,000 net, would be £114,000,000 if the duty on beer were included in the value of the output.

In the second table of this series¹ I have shown the changes in the value of net output for each of the leading groups, and for a few individual industries of special interest, between 1924 and 1930, taking the value of output in 1924 as 100 and recording the 1930 value as a percentage of the value of 1924. The average for all trades covered on this basis is 94, so that all trades which show an index of over 94 have maintained their position in relation to the average, and all trades below this level have failed to maintain their position. It is unfortunately impossible to establish any direct relations between these figures and the volume of output by applying to them a single price index. The index of wholesale prices is related too closely to the prices of raw and semi-finished products to serve as a basis of measurement, and there is no index which covers adequately the average level of prices for manufactured commodities. I have therefore inserted

¹See Appendix, Table IX.

in the table two price indices—the general wholesale price index and the separate index for the selling prices of manufactured exports. But neither of these can be used as a means of converting the figures in the table from values to quantities of output.

It will be seen that the industries which show the most rapid rate of increase in value of output between 1924 and 1930 are the public utility trades, including both such services as gas and electricity and the building and contracting group. The rise in engineering and shipbuilding is largely due to the great development of electrical engineering which has accompanied the increased use of electrical power, while the rise in the timber trades is chiefly due to increased activity in the building and furnishing industries. The printing and paper group shows a very large rise in the case of the newspaper industry, while the index for the food, drink and tobacco group as a whole is swollen by the sharp rise in the value of the net output of the tobacco trades. As against this, the older staple industries of Great Britain—textiles, mining, and iron and steel—all show large decreases in value, both absolutely and in relation to the average, this decline being to a considerable extent the result of the very great fall in the volume of exports, though of course, the coal industry has been affected also by the general decline in industrial activity, and the iron and steel industry by the decrease in capital construction.

In the next table in the series¹ figures are given showing the value of the net output per worker employed in each of the main groups of industries. It will be seen that there is an enormous divergence in net output per worker between the industries near the

¹ See Appendix, Table X.

top and those near the bottom of the list, and that the older basic industries—iron and steel, mines and quarries, and textiles—all stand nowadays very near the bottom. In the case of textiles a low value of net output per head is partly to be explained by the predominance of women's employment; but this by no means applies to mines and quarries or to iron and steel, which have suffered heavily as a result of the fall in the selling value of their products in recent years. Apart from the chemical industry, the major groups near the top of the list consist mainly of consumers' industries, supplying either goods or services for the domestic market. The industries producing capital goods or depending largely on exports appear much lower down.

Net output per worker, however, must obviously depend on many factors besides the condition of the market. One of the most important factors is bound to be the degree of mechanisation in the industry, and the quantity of capital which is used in conjunction with the labour employed. It is not possible to measure statistically either the degree of mechanisation as such or the volume of capital from the Census figures; but some indication on both these points can be obtained from the figures recording the amount of power, including both steam and electrical power, in use in each of the main groups. In the accompanying tables¹ I have given both the actual figures from the Census of Production showing the amount of power in use per worker, and an index number representing the amount of power in use in each group as a percentage of the average power in use in all the trades covered taken together.

¹ See Appendix, Tables X and XI.

These figures bring out the enormous differences in the degree of mechanisation between trade and trade. The iron and steel industry, which shows the highest use of power, employs thirty-one times as much power per worker as the clothing trades. The metal industries generally stand fairly high up the list, but mines and quarries also come very high, whereas building and contracting are almost at the bottom. To a large extent, of course, these differences arise from the character of the industries themselves, and not from success or failure in applying power in appropriate cases. In this connection more significance attaches to the figures, which I have recorded separately, showing the percentage increase in the use of power between the two Censuses of Production of 1924 and 1930. It will be seen that over this period the rate of increase was enormously different for different trades. The chemical industry and the printing and paper trades showed the highest rate of increase—in both cases 55 per cent. Mines and quarries, with 32 per cent, also showed a very rapid increase, due largely to the development of coal-cutting machinery and of mechanical conveyers. Iron and steel and engineering, despite the fact that they were highly mechanised already, both increased their use of power by about 20 per cent; and this is the more significant in the case of iron and steel because the increase took place in a period of declining industrial activity. It is unfortunately not possible to calculate for most trades what increase in physical output per worker accompanied this advance of mechanisation, which averaged over 20 per cent for all trades included in the Census of Production. But I have added in a final column such figures as are available from the Report of the Mac-

millan Committee on Finance and Industry, showing the estimated percentage increase of physical output per worker in certain trades between 1924 and 1929. These figures show an average increase of 11 per cent as against an average power increase up to 1930 of 21 per cent. But again the increase in physical output is very unevenly spread among different industries. Mines and quarries, largely owing to the increased length of the working day after 1926, show the biggest rise—27 per cent. In iron and steel and in engineering and shipbuilding (including the motor trade) the effect of the rapid advance of mechanisation is evident, whereas in textiles, owing to discontinuous employment and slackness of trade, there was an actual decrease of output. This, however, does not indicate any decrease in power to produce, given satisfactory conditions of demand.

The particulars given in the foregoing tables have referred mainly to industrial employment, and have therefore, apart from the scanty particulars given about agricultural employment, taken account of the food and drink trades only to the extent to which these are engaged in manufacturing raw food products into prepared foodstuffs. Obviously, however, if we are attempting to forecast the course of demand under a planned economy aiming at the full utilisation of productive resources, we must attempt to make some estimate of the probable effect of fuller employment and of a higher standard of purchasing power on the demand for food products in general, including the direct products of agriculture. With this object I have included a table¹ which shows the broad movement in recent years of imports and in a few cases total consumption of certain of the leading articles of food and

¹ See Appendix, Table XII.

drink, and also tobacco. I have expressed the quantities of each article in terms of the quantity imported (or in some cases consumed) in 1924, giving figures on this basis for 1913 and for 1932, which seemed preferable to 1933 owing to the disturbance caused to imports during that year by the introduction of the quota system for certain products. It will be seen that, of the commodities for which adequate particulars are available, the most marked rises both between 1924 and 1932 and between 1913 and 1924 are shown by those foodstuffs of which an increased use is certain to be made as the standard of living advances from the lower ranges of working-class consumption to the range of middle incomes received by the upper wage-earners and the main body of salaried employees. Thus, in comparison with 1924, the largest rises are shown in the imports of butter, mutton and bacon, and of currants and raisins, and sugar; and there was also a sharp increase in the importation of tobacco. The consumption of both beer and spirits shows, on the other hand, a sharp fall; and there has also been a considerable fall in the consumption, or at least in the importation, of wine. The importation of wheat and flour has fallen, though not significantly, below the pre-war level. Cheese shows a small increase between 1924 and 1932.

But now relate these figures to those of 1913, and it is at once seen that the rise in the importation of butter has been very steep both before and after 1924. The same applies to bacon, tea and tobacco. Cheese and cocoa are also imported in quantities very much greater than before the war, though there has been no sharp rise since 1924. Beef as well as mutton has increased substantially in quantity since 1913, but the

importation of eggs shows a small decrease, and that of wheat and flour, as we have seen, has not significantly changed since before the war. The importation of wine was larger in 1932 than in 1913, but in both beer and spirits the fall in consumption since 1924 is seen as only continuing a tendency which was already marked during the previous period. Indeed, consumption of spirits has fallen to one-third of the 1913 level, and that of beer to considerably under a half.

These figures confirm what has been said in an earlier section about the probable course of the demand for foodstuffs as a consequence of a rise in the standard of purchasing power. It is reasonable to expect that the tendencies manifested by actual consumption over the past twenty years will be continued and accentuated by any measures that are taken for the increase and redistribution of the national income. The commodities included in the list belong broadly to three groups—foodstuffs incapable of being produced in any quantities in Great Britain; foodstuffs capable of being produced in this country; and alcoholic drinks. For the present purpose tobacco can be included with the first of these groups.

Of the commodities which show the sharpest rise in recent years, those incapable of being produced in any quantity in Great Britain include tea, currants, raisins, and tobacco. Those capable of being produced at home include butter, cheese, beef, mutton and bacon. Sugar is also capable of being produced at home, but only at excessively high cost in relation to the cost of importing it. Of alcoholic drinks, beer and spirits are largely home produced, whereas wine is nearly all imported. This indicates that a planned economy will have under any circumstances to budget for a substantial increase

in its importation of tea and cocoa, fruits of all kinds not capable of being produced readily in Great Britain, tobacco and sugar. How far it increases its importation of butter, cheese, beef, mutton and bacon is a matter of policy, depending on what is done to stimulate home agricultural production, which in turn must be affected by the relative cost of importation and of production at home. In recent years, as we have seen, the world prices of agricultural produce have in most cases been forced down sharply in relation to those of industrial goods; and this has made it substantially cheaper to import foodstuffs in terms of the exports which have been sent out in exchange. But there is no assurance that this situation will continue, and British agricultural policy will accordingly have to be based on considering not only the absolute costs of British production after the utmost economies have been achieved both in agriculture itself and in the marketing of agricultural produce, but also the course of world prices and the nature of the bargains which can be struck with the food-producing countries for the exchange of their products for British exports.

Broadly, the position was that, before the dislocation of the world market and the changes in agricultural policy which accompanied the depression, Great Britain in post-war years was producing at home about 15 per cent of her supply of wheat for flour, about half her poultry, eggs and dairy produce, about 44 per cent of her meat, about 61 per cent of her fish, and about 70 per cent of her vegetables.¹ All these percentages have declined since pre-war times with the exception of those for poultry, eggs and dairy produce, which all show an increase. In the case of fruit, it is

¹ See Appendix, Table XIII.

more difficult to quote a significant figure, owing to the divergences of type between fruits produced at home and imported fruits. But broadly Great Britain produced at home about 16 per cent of her total consumption of fruits of all kinds, whereas before the war she produced well over one quarter. Of the total food supply of Great Britain in the post-war years preceding the depression, about 39 per cent was produced at home and the rest imported, 39 per cent from foreign countries and the rest from countries within the Empire. Under the recent arrangements for the regulation of imports, the Empire proportion has substantially increased in relation to that of foreign countries, while at present the home productions of wheat, sugar, meat and cheese are all being stimulated by quotas, subsidies, or other special arrangements, and under the tariff special measures are in force to keep out certain types of luxury foodstuffs, such as vegetables, which were previously imported from abroad.

CHAPTER XV

CONCLUSION

IN the foregoing chapters I have endeavoured to discover what changes in economic organisation the institution of a completely planned economy would involve. In considering this question I have throughout kept the position of Great Britain mainly in mind, but have endeavoured to cast the argument into a more general form so as to make it broadly applicable to any Western country working under a parliamentary system of government. It could not be applied without considerable modifications at many points either to a Fascist country or to a less developed country such as Russia was before the institution of the Five Year Plans. For this reason, I have been unable to draw more than incidental morals from the actual working of a planned economy in Russia; for the conditions there are so different both economically and politically as to make comparisons save on a limited number of special points more dangerous than enlightening. Russia began with a political revolution which completely upset the old institutions both of government and of the economic system. In a country in which Capitalism was for the most part little developed, but what Capitalism there was was highly organised on a basis of large-scale factory production, the new political rulers came to power as the result of the most complete revolutionary upset in modern history, and were

required to start moulding the new economic institutions of the country under circumstances of great practical difficulty, but with virtually complete freedom to give to the new order whatever shape they chose. In the West, on the other hand, and most of all if planning is to be instituted constitutionally under the parliamentary system, there can be no such clean sweep of the old order, and the planned economy will have to link its new forms of economic organisation far more closely to what has gone before, taking over from the old order much that the Russians could not have taken over even if they had so desired, because it had been thoroughly shattered in the processes of war and revolution. It is of course possible that at some time in the future a revolutionary situation may develop in Great Britain, and that the British capitalist system may collapse as sensationally as Russian Capitalism collapsed with the decline and fall of Czardom. But I have not thought this prospect imminent or likely enough to base my study upon it. For it seems far more probable that any attempt to institute a planned economy in Great Britain or in any Western parliamentary country in the near future will be made rather by an adaptation of the existing instruments of government than by the establishment of a totally new political as well as economic order. Such an attempt may of course fail if it is made; but until it has been made, and has either failed or met with success, it does not seem very profitable in the West to discuss the alternative of a completely revolutionary transition on the Russian model. Moreover, even if the transition in the West were to be as revolutionary as it actually was in Russia, the conditions attending it would be very different because of the vitally different

place which the technical and administrative middle class occupies in Western societies.

I have therefore confined my attention in this book to considering the principles of a planned economy in relation to the highly industrialised countries of the West, and with a constitutional transition principally in view. On these terms, is the institution of a planned economy really practicable in Great Britain? The obstacles in the way are clearly very powerful, for parliamentary democracy is an instrument which does its work slowly, and Parliaments as they exist to-day are ill-equipped for the carrying through of rapid changes involving simultaneous action over a wide field. It is, however, possible, if the will were present, that parliamentary institutions could be so adapted as to work far more rapidly and effectively than they do at present, and that, by adapting them; a Government determined to institute a general economic plan could so speed up the legislative and administrative process as to bring the necessary forms of organisation into being fast enough to avoid a transitional period during which neither private enterprise nor its alternative would be able to work effectively, because each would get inextricably in the other's way. Throughout this book I have assumed this adaptation of parliamentary machinery to be possible; but I have not argued the point because it would have taken me too far afield and would have involved writing a book at least twice the size of the present volume.

A planned economy could conceivably be brought into existence in Great Britain at the hands either of a Government determined to make the capitalist system work better by reorganising it, or of a Government determined, at least in the long run, to supersede

Capitalism by a Socialist system. In earlier chapters I have given reasons for supposing that it is most unlikely, if Great Britain retains the forms of parliamentary democracy, that any attempt will be made by a Government favourable to Capitalism to institute a planned economy in any real or thoroughgoing sense. Sectional rationalisation of particular industries and services might indeed well occur under such a Government, and some further services might be brought under public auspices in the same way as the wholesale transmission of electricity or the transport of passengers in the metropolitan area. There might be more socialisation and more rationalisation, but the attempt would almost certainly be made to equip each rationalised or nationalised industry or service with an autonomous management of its own, as like as possible to the managements which exist in capitalist industry, and without any effective central co-ordination between the various services—much less any general plan for industry as a whole. This would almost certainly be the policy followed by a capitalist Government, precisely because of the fear that the alternative course of co-ordinating rationalised or nationalised industries under a common control would involve increasing political interference with their conduct and thus pave the way to Socialism. If, however, each industry were left with its own sectional plan, and no effective co-ordination between these plans were attempted, it would be utterly impossible for the economy to escape from the restrictive tendencies inherent in the capitalist pursuit of profit by means of scarcity. Actually socialised industries might, indeed, pursue a different policy, but the rationalised industries still left under private ownership and control would

assuredly continue to seek the highest total profit and not the highest production compatible with covering social costs. Reasons have been given in earlier chapters for holding that attempts by mere State control, without ownership, to alter the policy of rationalised combines would be most unlikely to meet with success.

In effect a capitalist Government in a parliamentary country is bound to be deterred from the institution of any effective form of planning by the fear that any real advance towards a planned economy would involve making both the control of industry and the distribution of the product far more directly political issues than they are at present, and would thus threaten the entire basis of distribution of incomes in accordance with the capitalist principle of marginal productivity. Under capitalist auspices planning is most unlikely, save to the accompaniment of some sort of Fascism, to advance beyond the point of purely sectional reorganisation, designed to improve productive and marketing efficiency in this or that particular branch of production. It will stop short at this point because any further step would involve making the distribution of the national income directly and plainly an electoral issue. A Fascist system may go further, because it will rely on its power to preserve the class system of distribution by sheer coercion of the poor. A planned economy may not be inconsistent with Fascism, but it is plainly inconsistent with capitalist parliamentarism.

The second possibility is that planning may be instituted in Great Britain under the auspices of a Government committed, in the long run, to the replacement of Capitalism by some form of Socialism—that

is, in effect, of the Labour Party. But, as far as can be gathered from the declarations of policy enunciated by successive Labour Conferences and now gathered up into a comprehensive programme by the Southport Conference of 1934, the intention of the Labour Party is that the policy of the next Labour Government shall be definitely evolutionary, and that it shall begin, not with an attempt to institute all at once even the outline framework of a planned economy, but rather with experiments in piecemeal socialisation of particular services, accompanied by an attempt, through taxation, to redistribute the national income on somewhat less unequal terms than it is distributed at present.

Such a policy, pursued by a Labour Government, would differ from the possible planning policy of a capitalist Government mainly in two respects. It would extend socialisation and rationalisation more rapidly and to a wider range of services, and it would be designed to bring about, simultaneously with this extension, a substantial redistribution of incomes and a fairly rapid expansion of the social services. It follows from this that the Labour policy would be definitely more expensive from the standpoint of the national Budget than the policy of capitalist planning. For the object of capitalist planning would be to replan industries for the more effective service of the existing structure of demand, whereas the Labour Party would be seeking to alter the structure of demand by taxation, and to replan industry to serve the needs of the changed distribution of incomes. If, however, the change in the distribution of incomes were to be brought about by increased taxation upon incomes distributed in the first instance very much as they are to-day, and not by altering the initial methods of distributing incomes,

this higher taxation would be bound to react upon the successful working of capitalist industrialism in two ways. It would so react, first, by lowering the will and capacity of individual capitalists and of capitalist concerns to set aside surplus profits for capital accumulation, and secondly by lowering the net return upon capital and so diminishing the incentives to the *entrepreneur* to bring productive resources into use. There are strict limits to the success of a policy of redistribution of incomes through the imposition of taxes, for the effect of pushing this method far is likely to be a contraction in the volume of employment which will both narrow the basis for future taxation and impose fresh burdens on the public revenue for the maintenance of the unemployed.

For this reason a Labour Government which began with a policy of piecemeal socialisation on the one hand and redistribution of purchasing power through taxation on the other would before long find itself in the position either of allowing its redistributive policy to be checked by the growing difficulties of Capitalism or of having to press on much further and faster with its policy of socialisation in order to appropriate to itself the resources which it must have if it were determined to redistribute incomes with real effect and also to broaden the basis of production so as to increase the total income available for distribution. A Labour Government determined to make the poor richer by an advance towards Socialism would soon discover that it must, in order to redeem its promises, find ways and means of overcoming the restrictive tendencies inherent in capitalist industry. But these tendencies cannot, I have tried to show, be overcome while at any rate the major industries, including the key industry

of finance, remain in private hands, or while the entire income of the producers continues to be charged up as a deterrent cost against the productive system, or while foreign trade remains unplanned save on the purely restrictive basis of protection. Accordingly, if a Labour Government seriously meant to improve the position of the poor, it would have to advance towards a comprehensive form of Socialist planning very much faster than those who frame the policy of the Labour Party appear at present to realise. It would have to advance before long to the point, contemplated in this book, at which the entire system of distributing incomes, as well as the control of industrial and agricultural production, would be brought under public auspices. It would have to provide collectively for the accumulation of capital instead of continuing to rely on its provision through individual savings and the reserve profits of joint stock enterprise. And it would have to bring the entire foreign trade as well as the internal production of the country under the co-ordinating control of an economic planning authority.

Whether the Labour Party, when, after a period of office, it is clearly confronted with these alternatives, will choose the way of advance towards Socialism, or the way of defeat which it chose between 1929 and 1931, I do not venture to prophesy. I can only assert my conviction, first that half-planning will not work, and secondly that no substantial redistribution of incomes and no substantial expansion in the British working-class standard of life can be brought about, under twentieth century conditions, except by the institution of a comprehensive economic plan, extending to the controlled distribution of incomes as well as to the co-ordinated organisation of production—the

first of these two things being in effect the only condition on which the second can be applied.

I began this book with a chapter in which I tried to state as simply and directly as I could the intolerable-ness to me personally—and I believe to a great mass of people both inside the ranks of the Labour Party and outside—of the existing economic situation. I tried to set down in as few words as possible the sheer folly and futility of a situation in which the forces of plenty are waiting to be unloosed upon the world, but are held back by the workings of an economic system which is compelled to pursue scarcity as a means to survival. If we wish to escape from this absurdity and to establish a system of common welfare and social justice, we must resort to a form of planned economy which will take as the guiding principles of its activity the full utilisation of the available productive resources and the planned distribution of incomes so as to promote the standards of consumption most consistent with common welfare. I have tried to show that these ends are utterly inconsistent with the survival of a planless economy, which rests on the explicit assumption, first that the distribution of incomes must be left uncontrolled as an essential element in the pricing system and the free market, and secondly that production must be adjusted not to the needs of the consuming public but to the effective demands which are the result of this uncontrolled distribution of incomes.

If, then, any of my readers regard persistent unemployment and enforced scarcity as intolerable and ridiculous evils, I appeal to them to consider carefully whether a planned economy, with all its admitted difficulties and dangers, is not well worth trying in preference to a continued reliance on a planless system

which is manifestly decreasing in effectiveness from year to year. If we do decide in this country to make the experiment of a comprehensive economic plan, our problem bids fair to be far simpler than that which the Russians appear now to be facing with no mean degree of success. The difficulties of economic planning in Russia are rendered enormously greater by the fact that the Russians had to begin their plan with three great disadvantages—a standard of life so low that anything set aside for the accumulation of capital had to be withdrawn from the subsistence of a population threatened with positive starvation, an industrial system so ill-equipped with means of production and transport that the need for setting aside resources for the provision of new capital was immensely larger than it would be in any more developed industrial country, and, last but not least, a terrible deficiency of skilled personnel, technical, manual and administrative alike, which involved a high degree of inefficiency in the running of the new economic machine.

We in this country, and indeed the people of any developed industrial community, will be able to institute a planned economy without having to face any of these dangers in at all a serious form. Our existing standard of life is relatively high, so that resources can be set aside for capital accumulation with far less sacrifice: the need for new capital resources will be very small in relation to the magnitude of the annual production, even if provision is to be made for a large increase in future output and for considerable changes in the distribution of demand between different products; and, so far from suffering from a shortage of skilled personnel, the Western countries have an immense asset in the abundance of highly competent

technicians, skilled craftsmen and administrators whom they are able to command. Great Britain, or any highly developed Western country, can from the economic point of view successfully institute a planned economy with far less difficulty than Russia, and without the necessity for any of the severe sacrifices which the people of Russia, in building for the future, have been compelled to undergo.

In the West the difficulties in the way of economic planning are political and not economic. They lie in the immensely greater strength of the forces determined to preserve the capitalist system, and in the stronger spirit of individualism which long experience of capitalist enterprise has fostered among their populations. They lie also in the timidities engendered by snobbery and half-security in a large section of the intermediate classes, and, last but not least, in the lack so far of courageous and determined leadership. If the people of Great Britain, or of any Western country working under the parliamentary system, can make up their minds to want a planned economy, I feel no doubt of their ability to make it operate with success, or speedily to unloose by its means the great productive forces which the existing system keeps chained up in the interests of the profit-seekers. And I am not without hope that, as the sense of the intolerableness and futility of the existing order comes more and more home to men's minds with the progressive decay of Capitalism, the Western countries will at length overcome the hesitations and timidities that hold them back and show, under strong leadership, no less courage than the Russians have shown in facing an infinitely more difficult problem.

STATISTICAL APPENDIX TO CHAPTERS XIII AND XIV

(For List of Tables see p. xxii)

TABLE I

BRITISH FOREIGN TRADE, 1929 (OR 1930), 1933, AND
JAN.-JUNE, 1934.

	1929	Net Imports			Net Exports		
		1933	Jan.-June 1934	1929	1933	Jan.-June 1934	
<i>Values £ millions</i>							
Food, Drink and							
Tobacco ..	509	329	161	56	28	15	
Raw Materials, etc. ..	287	155	92	79	46	24	
Manufactured Goods, etc.	305	140	79	574	280	146	
TOTAL (including Miscellaneous) ..	1,111	627	333	729	367	190	
<i>Volumes (1930=100)</i>							
Food, Drink and							
Tobacco ..		102	102		72	77	
Raw Materials, etc. ..		105	115		83	84	
Manufactured Goods..		67	75		79	82	
TOTAL	102	92	96	122	78	81	
<i>Average Prices (1930=100)</i>							
Food, Drink and							
Tobacco ..		71	70		82	80	
Raw Materials, etc. ..		70	76		86	90	
Manufactured Goods..		74	74		81	81	
TOTAL		71	72		82	82	

TABLE II

A COMPARISON BETWEEN CERTAIN BRITISH EXPORTS IN 1930,
1933, AND JAN.-JUNE, 1934.

	Value of Exports 1933 £ m	Value of 1933 Exports at 1930 Prices £ m	Index Number of Volume (1930=100) 1933	Index Number of Volume (1930=100) Jan.-June 1934
Cotton Yarns and Manu- factures	58.9	80.1	91.5	89.0
Coal	31.4	33.4	73.1	71.8
Iron and Steel	29.9	33.1	64.6	67.8
Machinery	27.0	26.6	56.7	67.3
Woollen Goods and Manu- factures	25.6	35.1	94.8	99.1
Vehicles (including Ships)	21.7	29.2	57.3	63.8
Other Textile Goods ..	14.0	19.9	101.7	106.0
Non-ferrous Metals and Manufactures	12.1	12.2	101.5	102.4
Apparel	10.7	14.8	75.0	72.3
Chemicals, Drugs, Dyes, etc.	17.5	19.9	90.5	96.7
Pottery, Glass, etc. ..	7.0	8.0	67.4	72.2
Electrical Goods	6.7	7.2	60.0	64.7
Cutlery, Hardware, etc. ..	6.4	7.5	102.6	123.6
Paper, Cardboard, etc. ..	6.1	7.2	85.3	84.9
TOTAL (including other items)	367.4	447.5	78.4	81.7

TABLE III

A COMPARISON BETWEEN RETAINED IMPORTS OF MANUFACTURED GOODS IN 1930, 1933, AND JAN.—JUNE, 1934.

	Value of Imports 1933 £ m	Value of 1933 Imports at 1930 Prices £ m	Index Number of Volume (1930=100) 1933	Index Number of Volume (1930=100) Jan.—June 1934
Manufactured Oils, Fats and Resins	28.7	46.6	107.3	110.4
Non-ferrous Metals and Manufactures	14.9	22.2	83.5	102.2
Paper, Cardboard, etc. ..	12.0	15.9	89.7	95.7
Chemicals, Drugs, Dyes and Colours	8.6	9.1	72.1	89.6
Machinery	7.8	6.9	41.9	58.2
Leather and Manufactures	7.1	9.7	72.5	70.7
Apparel	7.0	10.1	56.1	68.9
Other Textile Manufactures	6.6	9.3	70.6	69.4
Iron and Steel and Manu- factures	6.1	8.0	34.9	49.9
Pottery, Glass, etc. ..	5.7	6.2	58.2	49.9
Wood and Timber Manu- factures	5.0	7.5	92.7	86.7
Cutlery, Hardware, Imple- ments, etc.	4.4	4.3	66.7	83.9
Silk Yarns and Manufactures	2.8	3.9	38.2	48.6
Electrical Goods	2.3	2.7	40.8	40.9
Vehicles	2.2	2.6	41.8	61.8
Cotton Goods	2.0	2.3	25.4	24.1
Rubber Manufactures ..	1.7	2.2	56.8	60.7
Woollen Goods	1.6	2.2	17.0	17.3
Miscellaneous	13.4	18.7	72.9	78.4
TOTAL	140.0	190.0	67.1	75.2

TABLE IV

PROPORTION OF PRODUCT EXPORTED BY CERTAIN INDUSTRIES*.

				1930	1924
Cotton Piece-goods	..	..	..	75-80	75-80
Tinplates	..	..	..	71	71
Machinery	..	..	..	50+	45
Woollen and Worsted Tissues	..	..	..	36	51
Coal	..	..	..	23	23
Boots and Shoes	..	..	..	10	10

TABLE V

BRITISH IMPORTS AND EXPORTS OF IRON AND STEEL, 1913, 1929 AND 1933.

Millions of Tons	Retained Imports			Exports		
	1913	1929	1933	1913	1929	1933
Crude Iron and Steel ..	1.1	1.2	0.5	1.1	0.6	0.1
Rolling Mill Products ..	0.8	1.2	0.4	0.8	1.0	0.4
More Finished Products	0.3	0.4	0.1	3.0	2.8	1.4
TOTAL	2.2	2.8	1.0	5.0	4.4	1.9

* Based on the Census of Production.

TABLE VI

CHANGES IN OCCUPATIONS AND EMPLOYMENT, 1923-1934
(Insured Trades, with supplementary information for certain
non-insured Occupations).

	Numbers Insured in 1934	Index of Numbers Insured in 1934 (1923 = 100)	Index of Actual Employ- ment in 1934 (1923 = 100)	Percentage Unemployed in:—		
				1933 June	1933 Dec.	1934 June
<i>Building and Contracting Group.</i>						
Building ..	928,250	136	132	19.9	25.9	15.6
Brick and Tile Trades ..	95,610	165	160	15.0	15.3	11.4
Stone Quarrying	46,670	153	128	23.7	28.9	19.6
Slate Quarrying	9,960	132	124	12.2	12.5	7.1
Clay, Sand, Chalk Pits, etc. ..	17,020	141	129	19.4	21.9	14.4
Artificial Stone and Concrete Trades ..	22,730	224	210	24.2	24.3	20.2
Cement Manufac- ture	15,250	97	92	19.8	17.4	13.4
Stove, Grate, Pipe, etc., Trades ..	93,570	116	122	21.4	16.3	13.3
Heating and Ven- tilating Appar- atus Trades ..	11,580	213	207	17.6	12.5	11.1
Constructional Engineering ..	31,650	140	127	34.4	28.1	22.1
Paint and Varnish Trades ..	22,500	172	169	7.8	8.0	6.1
Sawmills and Machine Wood- work	61,720	112	109	18.3	17.8	15.2
Contracting Trades ..	271,690	221	155	43.1	48.4	42.7
<i>Furnishing Trades.</i>						
Furnishing and Upholstery ..	135,960	150	141	17.5	13.1	13.4
Wallpapers ..	7,250	160	158	9.0	5.9	7.1
Oilcloth, etc. ..	13,200	113	105	12.9	11.6	11.1
Carpet Trades ..	30,150	121	118	9.2	5.0	5.8

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	Numbers Insured in 1934	Index of Numbers Insured in 1934 (1923=100)	Index of Actual Employment in 1934 (1923=100)	Percentage Unemployed in:—		
				1933 June	1933 Dec.	1934 June
<i>Public Utility Trades.</i>						
Gas, Water and Electricity Supply ..	194,600	118	116	10.2	10.0	9.2
Electric Cables, Lamps, etc. ..	133,280	187	189	13.9	9.5	9.1
Electrical Wiring and Contracting	33,360	290	298	17.8	14.0	17.4
Electrical Engineering.. ..	91,190	152	150	15.2	10.6	8.0
<i>Food, etc., Trades.</i>						
Bread, Biscuits ..	160,980	106	107	10.8	10.6	10.0
Grain Milling ..	34,030	125	120	8.8	8.8	9.1
Cocoa and Confectionery ..	70,200	102	96	15.3	10.4	13.8
Other Food Trades ..	127,500	135	131	13.6	15.9	13.4
Fishing	32,190	134	118	20.5	26.1	20.5
Glass Bottles	20,060	128	136	21.2	17.8	19.5
Drink	110,200	112	109	11.9	10.2	10.1
Tobacco.. ..	43,400	99	103	7.3	4.9	5.9
<i>Other Household and Consumers' Trades.</i>						
Brushes and Brooms ..	12,410	144	136	15.9	14.7	15.0
Oil, Glue, Soap, Ink	73,060	98	94	12.8	10.1	11.2
Pottery	74,960	108	93	28.9	23.4	22.8
Glass (except bottles) ..	28,460	105	110	18.0	13.4	12.8
Watches, Clocks and Jewellery	40,410	84	87	15.3	9.4	9.7
Toys and Sports Requisites ..	16,390	139	145	13.2	10.0	9.6
Musical Instruments.. ..	24,530	129	120	24.3	12.0	13.5
Scientific and Photographic Apparatus ..	29,540	173	174	8.5	5.9	5.3
Miscellaneous Metal Trades..	220,180	137	137	15.9	11.3	11.4

	Numbers Insured in 1934	Index of Numbers Insured in 1934 (1923=100)	Index of Actual Employment in 1934 (1923=100)	Percentage Unemployed in:— 1933 June	1933 Dec.	1934 June
<i>Clothing Trades.</i>						
Tailoring ..	208,900	114	107	11.3	14.3	10.9
Dressmaking and Millinery ..	102,790	88	89	7.1	8.7	5.1
Shirts, Collars, etc. ..	99,470	150	148	9.2	8.2	9.5
Hats and Caps ..	34,650	103	100	10.4	18.2	9.1
Hosiery ..	117,470	133	126	12.5	7.1	12.0
Other Dress Trades ..	28,280	88	92	8.5	5.3	7.0
Boots and Shoes	139,390	101	89	13.2	18.6	19.1
<i>Textile Trades.</i>						
Cotton ..	467,440	83	82	25.1	19.7	21.6
Woolens and Worsteds ..	229,590	89	75	14.2	9.2	21.2
Dyeing and Bleaching ..	109,530	100	88	24.2	20.7	21.2
Silk and Art Silk	73,320	202	186	16.7	12.3	15.8
Linen ..	74,630	94	94	21.9	16.4	16.2
Lace ..	15,710	78	88	17.3	10.9	12.5
Miscellaneous Textiles ..	50,320	119	124	13.7	10.6	11.1
<i>Printing, etc., Group.</i>						
Printing and Publishing ..	279,730	126	122	9.4	8.6	8.0
Paper ..	60,930	114	113	8.5	6.7	7.5
Cardboard, Paper Bags and Stationery ..	64,720	118	120	8.1	4.8	6.0
Typewriting, etc., Requisites (not paper) ..	8,470	183	181	9.3	6.7	6.9
<i>Distribution and Commerce.</i>						
Distributive Trades ..	2,005,340	163	155	11.3	10.6	10.3
Commerce and Finance ..	256,960	114	114	4.7	4.6	4.4

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	Numbers Insured in 1934	Index of Numbers Insured in 1934 (1923 = 100)	Index of Actual Employment in 1934 (1923 = 100)	Percentage June 1933	Percentage in :— 1933 Dec.	Unemployed 1934 June
<i>Transport.</i>						
† Railways (partial)	134,020	73	70	15.8	14.4	10.3
Trams and Buses	182,600	173	170	5.5	6.5	4.6
Other Road Transport ..	213,830	147	147	20.6	20.9	18.0
Docks, Harbours and Canals ..	164,540	91	87	33.3	31.3	30.0
Shipping ..	150,420	120	101	33.3	34.0	28.6
Shipbuilding ..	158,790	61	55	61.1	54.5	46.1
Marine Engineering	46,760	73	65	49.7	40.2	30.1
Motor Vehicle Making ..	271,530	143	143	16.2	11.0	9.9
Rubber	63,390	114	111	13.6	13.7	12.1
Carriage and Cart Building ..	14,350	52	52	17.4	15.6	11.9
Railway and Tramway Vehicle Building ..	46,410	95	88	22.4	16.2	11.5
<i>Engineering, etc., Group.</i>						
General Engineering	522,620	81	88	25.0	20.0	15.0
Brass and Copper Finishing Trades	26,410	84	96	17.0	9.8	9.5
Tools and Cutlery	33,130	113	107	28.6	21.1	20.7
<i>Metal Group.</i>						
Iron Mining ..	11,750	63	59	46.4	34.8	25.0
Blast Furnaces ..	16,370	60	51	40.9	34.7	24.0
Iron and Steel Manufacture ..	168,040	82	79	38.7	28.6	24.6
Tinplates ..	28,920	101	72	27.8	29.8	30.0
Tubes	29,470	122	119	32.3	22.5	18.8
Wire	22,850	99	93	22.1	16.5	14.9
Nuts, Bolts, Nails, etc.	24,570	85	90	19.8	13.3	11.3
Other Metal Manufacture ..	38,280	95	99	19.2	15.1	12.7
Lead and Copper Mining ..	4,160	85	86	61.0	39.0	25.0
Miscellaneous Mining and Quarrying ..	13,210	52	45	24.6	25.2	19.9

† For complete information see supplementary table on p. 418.

	Numbers Insured in 1934	Index of Numbers Insured in 1934 (1923=100)	Index of Actual Employment in 1934 (1923=100)	Percentage Unemployed in:—		
				1933 June	1933 Dec.	1934 June
<i>Coal Group.</i>						
Coal Mining	981,520	81	53	37.6	25.7	35.0
Coke and By-products	12,960	90	79	29.6	24.0	19.7
<i>Chemical Group.</i>						
Chemicals and Dyestuffs ..	105,010	104	105	14.2	11.8	10.8
Explosives ..	16,040	88	95	8.8	6.1	6.2
<i>Miscellaneous Manufactures.</i>						
Miscellaneous Woodwork ..	23,570	89	86	18.9	15.5	16.2
Packing Cases, etc.	11,940	97	93	24.8	20.2	19.9
Leather Production	47,920	117	111	13.2	12.0	14.0
Leather Goods Trades	26,070	91	94	13.7	10.7	9.8
Jute Trade ..	31,770	80	59	31.7	25.9	32.5
Hemp, Cord, etc., Trades ..	18,120	93	90	21.3	18.9	18.1
<i>Miscellaneous Services.</i>						
Hotels, Restaurants, etc. ..	410,040	161	157	14.0	17.3	12.9
Entertainments and Sports ..	113,380	192	181	19.4	20.7	20.0
Laundries and Cleaning ..	152,890	146	144	8.0	8.3	6.7
National Government ..	111,630	64	63	12.9	14.4	12.6
Local Government	358,110	160	140	17.4	21.3	18.0
Professional Services ..	148,120	139	138	5.5	5.6	4.9

SUPPLEMENTARY INFORMATION FOR NON-INSURED
OCCUPATIONS

	1933 Total Actually Employed	Index of Actual Employment in 1933 (1923=100)	Estimated Percentage Unemployed in 1933
Total Railway Employees (G.B.)	566,300	83	2-3
	Total Returned in Census of 1931 G.B.	Index of those Recorded in Census of 1931 (1921=100)	Percentage Unemployed in Census of 1931
Domestic Servants, indoor ..	1,553,935	116	7.6
Sick Nurses	138,507	104	4.7
Medical Practitioners	33,388	106	0.8
Teachers	294,795	103	1.5
Agricultural Labourers ..	576,122*	86	8.4
Farmers' Relatives Working on Farms	92,269	92	—
Farmers	282,258	95	—
Gardeners, Seedsmen, etc. ..	239,626	111	5.1
TOTAL for Agriculture ..	<u>1,352,967</u>	<u>93</u>	<u>—</u>

* Including 48,402 out of work. The total number of agricultural labourers employed on holdings of over one acre in Great Britain was given in the Agricultural Statistics as 467,791 in 1931 and 464,075 in 1933.

TABLE VII

OCCUPATIONAL DISTRIBUTION OF THE POPULATION OF ENGLAND AND WALES AT THE CENSUSES OF 1921 AND 1931.

	Occupied Persons Both Sexes Thousands		Ratio of 1931 Occupied Population to that of 1921 (1921 = 100)	
	1921	1931	Males	Females
<i>Workers in</i>				
Agriculture	1,254	1,172	95	67
Fishing	29	27	94	—
Mining and Quarrying ..	1,065	969	91	76
Treatment of Non-Metalliferous Mine and Quarry Products	20	24	120	152
Bricks, Pottery and Glass	83	97	116	121
Chemicals	32	44	138	117
Metals (except Precious)	1,494	1,446	96	113
Precious Metals and Electro Plate	43	35	81	79
Electrical Apparatus (incl. Electricians)	140	215	147	212
Watches, Clocks and Scientific Instruments	25	22	87	79
Skins and Leather (except Boots and Shoes) ..	70	71	93	122
Textiles	863	876	99	103
Clothing	809	820	100	102
Food, Drink and Tobacco	214	243	112	117
Wood and Furniture ..	461	520	113	114
Paper and Bookbinding	82	101	122	124
Printing and Photography	160	190	120	112
Building and Contracting	505	693	138	45
Painting and Decorating	238	297	123	141
Other, Mixed or Undefined Materials ..	142	131	—	—
Transport and Communication	1,484	1,635	110	108
*Commerce, Finance and Insurance	1,572	2,071	137	120
*†Public Administration and Defence	†	293	66†	4†

* Excluding clerical workers.

† Excluding professional workers.

‡ 1921 and 1931 Census figures not comparable.

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	Occupied Persons Both Sexes Thousands		Ratio of 1931 Occupied Population to that of 1921 (1921=100)	
	1921	1931	Males	Females
<i>Workers in—contd.</i>				
*Professional Services ..	618	746	132	112
Entertainment and Sports ..	83	114	145	113
*Personal Services ..	2,016	2,390	136	115
Clerks, Draughtsmen and Typists	‡	1,375	140‡	135‡
Packing and Warehousing	351	411	115	121
Stationary Engine-driving, etc.	156	158	101	—
Others	1,549	1,667	111	90
Retired or Unoccupied Persons	‡	12,190	78‡	102‡

Note.—The above table represents the distribution of occupations and not of industries; i.e. a bricklayer in a steel works will appear as a building worker, and a painter in a shipyard as a painter. The industrial classification from the Census of 1931 is not available at the date of going to press.

* Excluding clerical workers.

† Excluding professional workers.

‡ 1921 and 1931 Census figures not comparable.

TABLE VIII

 INDUSTRIAL OUTPUT AS RECORDED IN THE CENSUS OF
 PRODUCTION.

Groups.	Gross Output including materials used.		Principal Trades included in Groups.	Net Output £m.	
	£m.	Net put. £m.		1930.	1924
<i>Food, Drink and Tobacco.</i>					
1930	563	179	Brewing (excluding taxes)	43.3	46.6
1924	565	170	Tobacco (excluding taxes)	30.1	23.9
			Bread and Biscuits	20.4	26.6
			Cocoa and Confectionery	15.8	16.8
			Preserved Foods	13.4	12.5
			Bottling	10.4	8.2
			Grain Milling	9.1	10.4
			Sugar and Glucose	7.4	4.2
<i>Engineering and Shipbuilding.</i>					
1930	299	156	General Engineering	88.2	86.8
			Electrical Engineering	42.5	33.0
1924	278	142	Shipbuilding	25.8	22.7
<i>Mines and Quarries.</i>					
1930	185	153	Coal Mines	137.1	209.7
1924	273	226			
<i>Textiles.</i>					
1930	397	135	Cotton	42.2	83.6
			Woollen and Worsted	36.5	53.1
1924	729	211	Dyeing and Finishing	18.1	27.1
			Hosiery	15.0	15.2
			Silk and Art Silk	7.6	10.1
<i>Printing and Paper.</i>					
1930	169	99	General Printing, Binding, etc.	36.0	35.8
1924	160	92	Newspapers	35.6	31.3
			Paper	13.0	12.9
			Stationery	5.8	5.3
			Cardboard Boxes, etc.	5.2	3.9

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<i>Groups.</i>	Gross Output including materials used. £m.	Output. Net. £m.	Principal Trades included in Groups.	Net Output £m. 1930.	1924.
<i>Building and Contracting.</i>					
1930	181	88	Building (gross) ..	(151)	(136)
1924	160	79	Contracting (gross) ..	(19)	(21)
<i>Iron and Steel.</i>					
1930	228	87	Steel Works	24·8	30·9
			Tube Works	5·3	5·4
1924	296	100	Tinplate Works	4·9	6·4
			Wire Works	4·1	6·0
			Blastfurnaces	3·9	5·3
			Hardware and Hollow-ware	14·0	12·6
			Chains, etc.	7·4	6·9
			Foundries	15·9	16·7
<i>Clothing.</i>					
1930	164	71	Tailoring, Dressmaking, etc.	43·1	43·8
1924	181	75	Boots and Shoes	20·0	22·0
<i>Chemicals.</i>					
1930	171	70	Chemicals, Dyes and Drugs	25·1	24·7
1924	190	65	Soap, etc.	12·5	12·3
			Paint, etc.	8·2	7·3
			Oil Refining	5·2	3·4
<i>Vehicles.</i>					
1930	137	61	Motor Vehicles.. ..	50·0	45·5
1924	118	56	Aircraft	5·6	3·1
<i>Bricks, Pottery and Glass.</i>					
1930	47	31	Bricks and Tiles	14·1	14·1
			Pottery	9·0	10·8
1924	51	33	Glass	8·0	8·0
<i>Timber.</i>					
1930	63	29	Furniture	15·9	13·5
1924	59	27	Sawmilling, etc.	9·8	9·6
<i>Non-ferrous metals.</i>					
1930	104	23	Finished Brass and Copper	5·6	5·7
1924	92	25	Brass and Copper Manufacture.. ..	5·5	6·1

<i>Groups.</i>	Gross Out- put includ- ing mater- ials used. £m.	Net Out- put. £m.	Principal Trades included in Groups.	Net Output £m. 1930.	1924.
<i>Non-metalliferous Mining Products.</i>					
1930	40	16	Cement	4.6	4.9
1924	45	17	Coke and By-products	3.6	5.4
<hr/>					
<i>Leather.</i>					
1930	35	10	Leather	7.2	8.4
1924	42	12	Leather Goods	2.2	2.3
<hr/>					
<i>Public Utility and Public Services.</i>					
1930	305	186	Electricity	39.1	24.4
			Gas	34.7	28.8
1924	282	163	Water	18.2	15.2
			Other Local Authority Productive Services	35.3	30.9
			National Public Factories, etc. ..	18.4	19.4

TABLE XI

OUTPUT AND POWER IN USE PER WORKER, 1930
B. Index Numbers

	Value of Net Out- put per Worker (Average of All Trades =100) 1930	Power in Use per Worker (Average of All Trades =100) 1930	Increased Use of Power per Worker (Average Increase for All Trades =100) 1924-1930	Change in Physical Output per Worker (Average Increase for All Trades =100)
Chemicals	190	190	262	91
Food, Drink and Tobacco	190	85	95	91
Non-metalliferous Mining Products	132	290	252	—
Printing and Paper ..	130	110	262	—
Miscellaneous Trades ..	120	110	205	—
Public and Public Utility Services	115	70	5	—
Vehicles	105	70	148	—
Non-ferrous Metals ..	105	135	172	—
Leather	105	85	95	96
Engineering and Ship- building	101	115	95	105*
Building and Contracting	92	20	0	—
Timber	89	85	48	—
Iron and Steel.. ..	88	310	90	109
Bricks, Pottery and Glass	84	90	114	—
Clothing.. ..	75	10	67	—
Mines and Quarries ..	72	185	152	114
Textiles	66	125	110	86

* Including motors.

TABLE XII

CHANGES IN IMPORTS AND CONSUMPTION OF CERTAIN FOODSTUFFS,
1913-1932

	Index Numbers—Quantities			Value of Net Imports	
	1913	1924	1932	1932 £m	1933 £m
<i>Net Imports</i>					
Butter	78	100	159	39.5	34.0
Cheese	79	100	107	9.0	7.5
Eggs	107	100	100	11.6	9.1
Beef	63	100	83	33.6	28.1
Mutton	98	100	135	16.3	15.7
Bacon and Ham ..	63	100	135	32.2	32.7
Wheat and Flour	93	100	89	35.6	34.4
Tea	77	100	124	20.9	20.6
Cocoa	64	100	89	2.3	2.1
Coffee	81	100	102	2.1	1.6
Currants and Raisins	91	100	127	5.6	5.2
Apples	45	100	112	7.8	7.0
Oranges	77	100	124	7.6	8.1
Bananas	67	100	151	4.4	4.4
Sugar	109	100	116	18.3	15.4
Tobacco	74	100	116	9.5	11.1
<i>Consumption</i>					
Beer	161	100	64	4.1	4.2
Spirits	216	100	67	1.0	1.2
Wine	75	100	82	3.4	4.4

TABLE XIII

APPROXIMATE PROPORTION OF CERTAIN FOODS PRODUCED AT HOME
1932-3.

Beef 43	Butter 9	Poultry 85 (except Turkeys)	Wheat 21	Apples 36	Wool 33*
Mutton 46 Pig meat 33	Cream 81 Cheese 30	Turkeys 18 Eggs 58	Barley 51 Oats 87	Pears 23 Plums 92	Sugar 20*

* After deducting all exports.

TABLE XIV

FOOD IMPORTS IN THE FIRST SIX MONTHS OF 1932, 1933 AND 1934

	Quantity million cwts.			Value £m		
	1932	1933	1934	1932	1933	1934
Beef and Veal	5.9	6.0	6.4	12.5	11.4	10.1
Mutton and Lamb ..	4.0	4.0	3.7	9.8	8.8	10.2
Bacon, Ham and Pork..	6.3	5.4	4.8	16.2	16.7	18.0
TOTAL MEAT (incl. other meat)	—	—	—	41.0	38.8	41.4
		thousands				
Cattle for Food ..	323	271	228	4.9	2.7	2.0
Sheep for Food.. ..	206	159	188	0.4	0.2	0.2
Pigs for Food	176	88	86	0.7	0.2	0.2
TOTAL ANIMALS FOR FOOD (incl. others)				6.1	3.1	2.4
TOTAL FOR IMPORTED MEAT				47.1	41.9	43.8

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